CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Financial Statements

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

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Independent Auditors' Report

The Honorable Mayor and City Council
The City of Long Beach, California:

We have audited the accompanying financial statements of the City of Long Beach Airport Enterprise Fund (the Airport) as of and for the years ended September 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed more fully in note 1 to the financial statements, the accompanying financial statements of the Airport Enterprise Fund are intended to present the financial position and the changes in financial position and cash flows attributable to the Airport Enterprise Fund. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2009 and 2008, and the changes in its financial position and its cash flows thereof for the years ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Long Beach Airport Enterprise Fund as of September 30, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2010, on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental information on page 38 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

August 10, 2010

As management of the City of Long Beach Airport Enterprise Fund (the Airport), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal years ended September 30, 2009 and 2008.

Background

The 1,175-acre Long Beach Airport is operated by the City of Long Beach as an enterprise fund of the City of Long Beach, California (the City), responsible for self-sufficiency through user fees, lease property-related income, and grants. As such, the Airport Enterprise Fund pays the City for all general purpose fund services it receives, such as police, fire, and other general services.

The Airport has a very broad base of users, including general aviation (private/corporate/business), scheduled airline and commuter service, air cargo, charter, and manufacturing-related operations. The Airport, in operation since 1923, is among the busiest general aviation airports in the world, with over 300,000 aircraft movements in 2009. The Airport's five airlines accommodated approximately 2.9 million annual passengers. The percentage of passenger activities by airline includes 78% JetBlue Airways, 10% Alaska Airlines/Horizon Air, 6% US Airways, and 6% Skywest/Delta Airlines. The cargo carriers (Federal Express, United Parcel Service, Catalina Flying Boats, and Airborne Express) transported approximately 36,200 tons of arriving and departing Air Cargoes. Aircraft manufacturing, including assembly of the Boeing C-17, and a completion center for Gulfstream Aerospace, account for over 6,000 of the jobs at the Airport.

In addition to the air transportation and economic output facets of the Airport, one of its primary guiding principles is neighborhood compatibility. Along with other "Green Airport" initiatives, Long Beach Airport has a Noise Compatibility Ordinance that is recognized as one of the most comprehensive and protective of the environment of any commercial service airport in the United States. As such, noise impact areas within the community, as defined by state and federal guidelines/regulations, are among the smallest in the region, and will be brought into conformance within the next several years by the Airport's Land Use Compatibility Program, currently under development.

Overview of the Financial Statements

The Airport's financial statements include the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. These statements are supported by the notes to the financial statements. This overview and analysis is intended to serve as an introduction to the Airport's financial statements.

Condensed Financial Position Information

The statements of net assets present information concerning the Airport's assets, liabilities, and net assets. The difference between assets and liabilities is net assets. Increases or decreases in net assets may indicate improvement or deterioration of the Airport's financial condition.

The following condensed financial information provides an overview of the Airport’s financial position as of September 30, 2009, 2008, and 2007:

Condensed Summary of Net Assets

	September 30		
	2009	**2008**	**2007**
Assets:			
Capital assets, net	$ 131,585,213	118,672,259	102,341,301
Other assets	35,748,658	26,270,304	26,585,825
Total assets	167,333,871	144,942,563	128,927,126
Liabilities:			
Noncurrent liabilities, net	24,359,828	21,748,486	15,937,319
Other liabilities	8,160,491	3,981,356	5,913,281
Total liabilities	32,520,319	25,729,842	21,850,600
Net assets:			
Invested in capital assets, net of related debt	108,498,241	103,157,292	93,160,877
Restricted	12,390,641	4,915,574	4,757,825
Unrestricted	13,924,670	11,139,855	9,157,824
Total net assets	$ 134,813,552	119,212,721	107,076,526

Analysis Fiscal Year 2009

The assets of the Airport exceeded its liabilities at the close of fiscal year 2009 by $134,813,552 (net assets). Total net assets increased by 13% or $15,600,831 compared to fiscal year 2008. This change is a combination of $1,960,892 from operating loss, $6,012,444 from net nonoperating revenues of which $6,005,439 is from passenger facilities charges, $77,403 from interest expense, net of income related to financing activities and $352,640 from an operating security cooperative agreement, $268,232 from other expenses, net of other income, and $11,549,279 from Federal Aviation Administration capital grants.

The Airport’s investment in capital assets (land, buildings and infrastructures, furniture and fixtures, machinery and equipment, and construction in progress) less any related debt is $108,498,241 or 80% of the aggregate net assets. Investment in capital assets, net of related debt increased $5,340,949 or 5% compared to fiscal year 2008. Capital assets, net increased $12,912,954 compared to fiscal year 2008. The increase is primarily attributable to the rehabilitation of Taxiways K, D, L & C, the islands between Taxiway C and ramp, and other airport terminal development and modification projects. Capital assets facilitate tenant and airline operations, and the Airport does not intend to liquidate such capital assets to fund ongoing operations.

The Airport's total other assets increased by 36.1% or $9,478,354 during fiscal year 2009 compared to the prior fiscal year's decrease of 1.2% or $315,521. The increase in 2009 was the result of the following: Pooled cash and cash equivalents increased by $3,497,513 as compared to 2008 due to a reduction in capital spending. Accounts receivable net of allowance for uncollectible accounts increased by $866,261, primarily due to the increase in Jetblue's accounts receivable amounting to $690,254 or 79.7% of the increase in accounts receivable at

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September 30, 2009. Cash with fiscal agent increased by $2,180,258 due to additional Commercial Paper issuance during fiscal year 2009. Passenger Facility Charges collections and receivables increased by $4,449,592 and $75,959 respectively because of the increased passenger facility charge rates from $3.00 to $4.50 effective May 1, 2008. Due from other governments decreased by $1,525,529 due to timely processing of reimbursements from the Federal Aviation Administration. Long-term notes receivable decreased by $67,801 due to transfers made to current notes receivable from Long Beach Business Park.

The Airport's total liabilities increased by 26% or $6,790,477 compared to fiscal year 2008. The Airport's total long-term debt increased by $7,572,005 primarily due to the issuance of $8,300,000 of Commercial Paper Notes to finance improvements to Taxiway C and the islands at Taxiway C. The increase was offset by a $870,000 principal repayment of the 1993 Refunding COP obligation and a decrease in accounts payable and accrued expenses of $1,351,393 due to the timely submission and processing of invoices from vendors and contractors.

The Airport holds $12,390,641 of net assets subject to external restrictions, an increase of $7,475,067 or 152% when compared to September 30, 2008. The increase consists of a $3,778,436 increase in amounts restricted for future capital projects from Passenger Facility Charges (PFC) and an increase of $3,696,631 from unspent proceeds of Commercial Paper. Restricted net assets represent 9% of the Airport's total net assets and are presented in the statement of net assets as restricted net assets.

At the end of the current fiscal year, the Airport reported unrestricted net assets of $13,924,670, an increase of $2,784,815 or 25% from fiscal year 2008. The increase is a combination of a $6,574,317 increase in the unreserved fund balance and a decrease in the long-term fund balance by $3,789,503. Unrestricted net assets represent 10% of the Airport's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Airport's continuing obligations.

Analysis Fiscal Year 2008

The assets of the Airport exceeded its liabilities at the close of fiscal year 2008 by $119,212,721 (net assets). Total net assets increased by 11% or $12,136,195 compared with fiscal year 2007. This change is a combination of $828,759 from operating loss, $5,437,469 from net nonoperating revenues of which $4,979,180 is from passenger facilities charges, $122,463 from interest income, net of expenses related to financing activities and $287,875 from an operating security cooperative agreement, $47,951 from other income, $7,495,543 from Federal Aviation Administration capital grants, and $31,942 capital grants from other sources.

The Airport's investment in capital assets (land, buildings and infrastructures, furniture and fixtures, machinery and equipment, and construction in progress) less any related debt was $103,157,292 or 87% of the aggregate net assets at the close of fiscal year 2008. Investment in capital assets increased $9.9 million or 11% compared to fiscal year 2007. Of this, $4 million is primarily attributable to the rehabilitation of Taxiway K, Phases 1 and 2, and other airport terminal development and modification projects. Capital assets facilitate tenant and airline operations and the Airport does not intend to liquidate such capital assets to fund ongoing operations.

The Airport's total liabilities increased by $3,879,242 or 18% compared to fiscal year 2007. The Airport's long-term debt increased by $6,334,543 primarily due to the issuance of $7,012,000 of Commercial Paper Notes to finance improvements to Taxiway C and the islands at Taxiway C. This increase was offset by a decrease in accounts payable of $2,536,170 due to the timely submission and processing of invoices from vendors and contractors.

The Airport held $4,915,574 of net assets subject to external restrictions, an increase of $157,749 when compared to fiscal year 2007. This increase consisted of a $275,750 increase in amounts restricted for repayment of long-term debt and a decrease of $118,001 in funds needed for construction of capital assets, fulfillment of contractual obligations, and matching requirements of federally funded projects. Such net assets represent 4% of the Airport's total net assets. They are presented in the statement of net assets as restricted net assets.

At the end of the fiscal year 2008, the Airport reported unrestricted net assets of $11,139,855, an increase of $1,982,031 from fiscal year 2007. This increase is a combination of $12,136,202 from the current year change in net assets, reduced by approximately $10,150,000 to fund various capital improvement projects and regular operations. Unrestricted net assets represent 9% of the Airport's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Airport's continuing obligations.

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Summary of Operations and Changes in Net Assets

The statements of revenues, expenses, and changes in net assets show how the Airport's net assets changed during the current fiscal year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. The table below summarizes the operations for the fiscal years 2009, 2008, and 2007.

Condensed Summary of Revenues, Expenses, and Changes in Net Assets

		September 30	
	2009	**2008**	**2007**
Operating revenues:			
Land and building rentals	$ 7,851,198	8,365,197	7,213,688
Parking fees	8,778,840	8,562,484	8,030,908
Airport concessions	4,158,955	5,173,047	5,372,472
Landing, gate, and ramp fees	6,052,865	5,712,496	4,384,046
Other fees and charges	2,425,211	2,239,324	1,835,766
Total operating revenues	29,267,069	30,052,548	26,836,880
Operating expenses:			
Personnel services	8,214,510	7,997,820	7,676,956
Operations and maintenance	9,114,687	9,834,959	8,187,006
City services	6,979,004	6,595,852	6,324,244
General and administrative	1,074,620	1,401,731	856,631
Amortization expense	117,881	122,348	126,276
Depreciation	5,727,259	4,928,597	4,250,076
Total operating expenses	31,227,961	30,881,307	27,421,189
Operating income (loss)	(1,960,892)	(828,759)	(584,309)
Nonoperating revenues (expenses):			
Interest income (expense), net	(77,403)	122,463	450,236
Passenger facility charges	6,005,439	4,979,180	3,968,261
Operating security agreement	352,640	287,875	—
Other income (expense), net	(268,232)	47,951	27,625
Net nonoperating revenues	6,012,444	5,437,469	4,446,122
Income before capital grants	4,051,552	4,608,710	3,861,813
Federal Aviation Administration capital grants	11,549,279	7,495,543	12,013,424
Capital grants – other sources	—	31,942	260,268
Change in net assets	15,600,831	12,136,195	16,135,505
Total net assets – beginning	119,212,721	107,076,526	90,941,021
Total net assets – ending	$ 134,813,552	119,212,721	107,076,526

(Continued)

Analysis Fiscal Year 2009

Total operating revenues were $29,267,069 for fiscal year 2009, a decrease of $785,479 compared to fiscal year 2008. Land and building rentals decreased by 6%; parking fees increased by 3%; airport concessions decreased by 20%; and landing, gate, and ramp fees increased by 6%; other fees and charges increased by 8%. The decrease in operating revenues is primarily attributable to the decrease in the commissions received from the car rental companies operating within the Airport. This is primarily a result of reduced demand associated with the national recession.

Total operating expenses were $31,227,961 for fiscal year 2009, an increase of $346,654 over fiscal year 2008. Personnel services increased by $216,690 or 3% primarily due to additional personnel in the Security and Maintenance and Facilities divisions. In addition, effective October 1, 2008, Special Services Officers received skill and marksmanship pay. Operations and maintenance expenses decreased by $720,272 or 7% due to decreases in the electricity and power costs, contract security services, maintenance contracts, and other facilities services at the Airport. The increase in city services by $383,152 or 6% is mainly due to the increase in fire services for fiscal year 2009. General and administrative expenses in fiscal year 2009 are lower by $327,111 or 23% compared to fiscal year 2008. This decrease is due to reduced maintenance and service expenses for computers and equipment in fiscal year 2009 and reduced costs of insurance. Depreciable assets increased by about $19.2 million during the fiscal year. As a result, depreciation expense increased by $798,662 or 16% during the fiscal year.

Interest expense, net in 2009 decreased by $199,866 due to lower interest rates prevailing in the market. Passenger facility charges increased by $1,026,259 or 21% due to an increase in PFC fees from $3.00 to $4.50 per enplaned passengers effective June 1, 2008. This was accompanied by an increase in enplaned passengers. The operating security agreements increased $64,765 or 22% due to the additional reimbursement of electrical and janitorial expenses from the Transportation Security Administration to the Airport. Other expense, net increased by $316,184 as a result of provisions for pollution remediation costs for $150,000, as directed by the Regional Water Quality Board and the Airport portion of the City's settlement with the State Water Resources Control Board for $127,500.

The Federal Aviation Administration capital grants were $11,549,279 for fiscal year 2009, an increase of $4,053,736 over fiscal year 2008. The increase was provided by the Federal Aviation Administration approved grant funds.

Analysis Fiscal Year 2008

Total operating revenues were $30,052,548 for fiscal year 2008, an increase of $3,215,668 over fiscal year 2007. Land and building rentals increased by 16%; parking fees increased by 7%; airport concessions decreased by 4%; and landing, gate, and ramp fees increased by 30%. The increase in revenue is primarily attributable to the increase in rates and fees.

Total operating expenses were $30,881,307 for fiscal year 2008, an increase of $3,460,118 over fiscal year 2007. Personnel services increased by 4% due to additional personnel and salary increases of 1% effective October 1, 2007 and 2% effective April 1, 2008. Operations and maintenance expenses increased by 20% primarily related to $1,102,926 increase in airport facility maintenance expenses and $107,543 increase in the cost of electricity. City services increased by 4% due to the salary increases for fiscal year 2008, and three additional officers from the Police Department servicing the Airport. Depreciation expense increased by 16% due to the increase in additional depreciable assets of about $32.6 million during the fiscal year.

Interest expense decreased due to reduction in principal balances as a result of payment. Interest income also decreased due to lower interest rates prevailing during the year.

The Federal Aviation Administration capital grants were $7,495,543 for fiscal year 2008, a reduction of $4,517,881 over fiscal year 2007. The reduction is due to the decrease in Federal Aviation Administration approved grant funds.

The airport received an additional $31,942 from South Coast Air Quality Management District (SCAQMD), which was the cost of the installation of the five electric ground service equipment (GSE) chargers.

Notes to Financial Statements

The notes to the Airport's financial statements can be found on pages 16 – 37 of this report. These notes provide additional information that is essential for a full understanding of the financial statements.

Capital Assets and Debt Administration

Capital Assets

The Airport's investment in capital assets, net of accumulated depreciation as of September 30, 2009, 2008, and 2007 is as follows:

Summary of Capital Assets, Net

		September 30		
		2009	**2008**	**2007**
Land	$	6,363,728	6,363,728	6,419,114
Buildings and infrastructure		10,801,334	11,290,656	9,559,602
Runways and improvements		100,078,949	85,847,224	59,636,205
Machinery and equipment		2,921,489	2,734,215	3,004,011
Construction in progress		11,419,713	12,436,436	23,722,369
Total capital assets, net	$	131,585,213	118,672,259	102,341,301

Analysis Fiscal Year 2009

The Airport's investment in capital assets includes land, buildings and infrastructure, runways and improvements, machinery and equipment, and construction in progress. Capital assets, net of depreciation, increased by $12,912,954 or 11% when compared with previous year. The biggest increase is in runways and improvements due to the completion of the rehabilitation of Taxiway D, K, L & C, and the islands between Taxiway C and the ramp. Construction in progress includes ongoing projects for the Airport terminal development, new parking structure, air carrier ramp reconstruction, taxi lane J, and the rehabilitation of Runway 7R-25L. Additional information regarding the Airport's capital assets can be found in note 3 to the financial statements.

Analysis Fiscal Year 2008

The Airport's investment in capital assets includes land, buildings and infrastructure, runways and improvements, machinery and equipment, and construction in progress. Capital assets increased by 16% when compared to fiscal year 2007. The biggest increase is in runways and improvements due to the completion of the rehabilitation of Taxiway D and partial capitalization of the rehabilitation of Taxiways L and C. Construction in progress includes ongoing projects for the rehabilitation of Taxiways L and C, and the rehabilitation of Taxiway K, Phase 1 and 2.

Debt Administration

The following table summarizes the Airport's long-term debt (net of current portion) as of September 30, 2009, 2008, and 2007:

Long-Term Debt

		September 30		
		2009	**2008**	**2007**
1993 Refunding COP	$	7,480,000	8,350,000	9,175,000
Commercial paper		16,332,000	8,032,000	1,020,000
Unamortized discount – COP		(103,521)	(127,645)	(152,840)
Unamortized deferred loss – COP		(327,576)	(403,912)	(483,636)
Unamortized issuance costs – COP		(104,302)	(128,608)	(153,993)
Unamortized issuance costs – CP		(189,629)	(206,868)	(224,107)
Total long-term debt		23,086,972	15,514,967	9,180,424
Less current portion		(4,920,000)	(870,000)	(825,000)
Total long-term debt, net of current portion	$	18,166,972	14,644,967	8,355,424

The 1993 Refunding COP bonds have a Moody's and S&P A2 and A rating, respectively.

The Airport's Commercial Paper program is supported by an Irrevocable Transferable Letter of Credit from JPMorgan Chase Bank, NA which is currently rated:

	Long-term	**Short-term**	**Outlook**
Moody's	Aa1	P-1	Negative
S&P	AA-	A-1+	Negative
Fitch	AA-	F1+	Stable

Analysis Fiscal Year 2009

The Airport's total long-term debt increased by $7,572,005 or 49% compared to fiscal year 2008. The increase was primarily due to the issuance of commercial paper for $8,300,000 for the rehabilitation of Taxiway C, the islands between Taxiway C and the ramp and design of the new parking structure.

(Continued)

Additional information of the Airport's long-term debt can be found in note 4 on pages 27 – 30 of this report.

Analysis Fiscal Year 2008

The Airport's total long-term debt increased by $6,334,543 or 69% compared to fiscal year 2007. The increase was primarily due to the issuance of commercial paper for the rehabilitation of Taxiway C and the islands between Taxiway C and the Ramp.

Economic Factors/Outlook

The U.S. Bureau of Economic Analysis reports that the U.S. gross domestic product (GDP) dropped by 2.1% from September of 2008 to September of 2009. The economic recession and associated increases in unemployment have presented a challenge to the aviation industry as reduced economic activity has led to a decline in the demand for air travel.

Despite the national recession and its dramatic impact on the aviation industry, the Airport has maintained relatively stable traffic levels and posted solid financial performance. During fiscal year 2009, enplaned passengers at the Airport were 1.47 million, representing a 1.9% increase over fiscal year 2008 levels. General aviation activity, however, has decreased as the number of general aviation movements has fallen to 264,041 in fiscal year 2009 compared to 313,750 in fiscal year 2008. The Airport's third business line is rental income from its leasehold property which provides a diversified revenue portfolio. This diversity of income has allowed management to maintain user fees – including airline fees – to a level below the average for similar category airports even with a 15% increase in airline fees (excluding passenger facility charges) effective May 1, 2009.

The geographical area served by the Airport primarily encompasses Los Angeles County, Orange County, Ventura County, Riverside County and San Bernardino County, which constitute the Los Angeles-Long Beach-Riverside Combined Statistical Area (the Los Angeles CSA). The Los Angeles CSA contains an estimated 18.4 million people and is the second largest metropolitan area in the United States. The Los Angeles region is served by five commercial service airports, including the Airport: Los Angeles International Airport, Bob Hope Airport in Burbank, LA/Ontario International Airport and John Wayne Airport in Orange County. Each of the five airports caters to particular types of passenger demand, owing to each facility's geographic proximity to businesses and population concentrations in the region, as well as to the availability of specific types of air services. The Airport draws passengers from the region for short-, medium- and long-haul domestic service. Additionally, freeway/ground access makes Long Beach very convenient for its marketplace. Currently, Long Beach Airport has attracted an approximately 3.5% share of the market.

Long Beach Airport is also unique in that its Noise Compatibility Ordinance does put restrictions on airline activity, as determined by the airlines' generation of aircraft noise at various monitoring stations. One component of the Noise Ordinance permits air carriers (passenger and all-cargo) to operate a minimum of 41 flights per day and commuter carriers to operate a minimum of 25 flights per day at the Airport. Commuter slots are restricted to aircraft having a certificated maximum take-off weight less than 75,000 pounds. As of September 30, 2009, all of the Airport's 41 air carrier slots are being utilized and 9 of the 25 commuter slots are utilized.

Long Beach Airport's airline customer base/traffic is predominately origin and destination, thereby not being driven by the dynamics of airline hubbing operations. JetBlue Airways is the Airport's leading air carrier, maintaining its west coast base in Long Beach and serving 78.4% of the Airport's passengers in fiscal year 2009. Airline load factors for fiscal year 2009 averaged 78%.

Because of Long Beach Airport's position in the market, and the activity restrictions resulting from the Noise Compatibility Ordinance (studies show that the demand to fly into and out of the Airport exceeds existing capacity) airline operations and related passenger activity should remain at Long Beach Airport.

Requests for Information

This financial report is designed to provide a general overview of the Airport's finances for people or entities interested in this area. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Administrative Officer, Long Beach Airport, 4100 Donald Douglas Drive, Long Beach, CA 90808.

FINANCIAL STATEMENTS

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Net Assets

September 30, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Pooled cash and cash equivalents (note 2)	$	20,133,325	16,635,812
Investment – nonperforming		50,701	50,701
Accounts receivable, net of allowance for doubtful accounts of $25,544 and $22,381 in 2009 and 2008, respectively		2,214,281	1,348,020
Note receivable		70,826	68,725
Due from other governments		211,942	1,737,470
Total current assets		22,681,075	19,840,728
Noncurrent assets:			
Restricted assets:			
Cash with fiscal agents – commercial paper (notes 2 and 4)		2,247,760	67,503
Pooled cash and cash equivalents (notes 2 and 4)		9,602,090	5,152,498
Passenger facility charges receivable (note 6)		923,121	847,162
Note receivable		294,612	362,413
Capital assets, net (note 3)		131,585,213	118,672,259
Total noncurrent assets		144,652,796	125,101,835
Total assets	$	167,333,871	144,942,563
Liabilities and Net Assets			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses	$	1,242,159	1,824,293
Accrued wages and compensated absences		265,126	234,315
Accrued interest payable		124,667	140,182
Current portion of long-term debt payable (note 4)		4,920,000	870,000
Pollution remediation – short-term liability (note 11)		150,000	—
Due to City of Long Beach (note 5)		252,020	108,623
Deferred revenue – current portion		858,004	463,348
Vendor deposits held in trust		348,515	340,595
Total current liabilities		8,160,491	3,981,356
Noncurrent liabilities:			
Payable from restricted assets:			
Accounts payable – passenger facility and commercial paper		382,330	1,151,589
Long-term debt, net of current portion (note 4)		18,166,972	14,644,967
Deferred revenue long-term portion		5,810,526	5,951,930
Total noncurrent liabilities		24,359,828	21,748,486
Total liabilities		32,520,319	25,729,842
Net assets:			
Invested in capital assets, net of related debt		108,498,241	103,157,292
Restricted for debt service		1,295,250	1,295,250
Restricted for capital projects		11,095,391	3,620,324
Unrestricted		13,924,670	11,139,855
Total net assets		134,813,552	119,212,721
Total liabilities and net assets	$	167,333,871	144,942,563

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2009 and 2008

	2009	2008
Operating revenues:		
Land and building rentals	$ 7,851,198	8,365,197
Parking fees	8,778,840	8,562,484
Airport concessions	4,158,955	5,173,047
Landing, gate, and ramp fees	6,052,865	5,712,496
Other fees and charges	2,425,211	2,239,324
Total operating revenues	29,267,069	30,052,548
Operating expenses:		
Personnel services	8,214,510	7,997,820
Operations and maintenance	9,114,687	9,834,959
City services	6,979,004	6,595,852
General and administrative	1,074,620	1,401,731
Amortization expense	117,881	122,348
Total operating expenses before depreciation	25,500,702	25,952,710
Operating income before depreciation	3,766,367	4,099,838
Depreciation (note 3)	5,727,259	4,928,597
Operating loss	(1,960,892)	(828,759)
Nonoperating revenues (expenses):		
Interest income	464,658	657,877
Passenger facility charges (note 6)	6,005,439	4,979,180
Interest expense	(542,061)	(535,414)
Operating security agreement	352,640	287,875
Other income (expense), net	(268,232)	47,951
Total nonoperating revenues, net	6,012,444	5,437,469
Changes in net assets before capital contributions	4,051,552	4,608,710
Capital contributions – Federal Aviation Administration capital grants	11,549,279	7,495,543
Capital contributions – other sources	—	31,942
Changes in net assets	15,600,831	12,136,195
Net assets, beginning of year	119,212,721	107,076,526
Net assets, end of year	$ 134,813,552	119,212,721

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Cash Flows

Years ended September 30, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Cash receipts from customers	$	28,661,980	30,624,335
Payments for employee salaries and benefits		(8,183,699)	(7,954,768)
Payments for goods and services		(11,397,303)	(13,788,541)
Payments for City services		(6,979,004)	(6,595,852)
Net cash provided by operating activities		2,101,974	2,285,174
Cash flows from noncapital financing activities:			
Security agreement received from the Federal Aviation Administration		352,640	287,875
(Payments) receipts from other nonoperating activities		(118,232)	47,951
Net cash provided by noncapital financing activities		234,408	335,826
Cash flows from capital and related financing activities:			
Acquisitions of capital assets		(18,640,213)	(21,259,555)
Payments received from the note receivable		65,700	61,639
Receipts from passenger facility charges		5,929,480	4,737,072
Proceeds from commercial paper		8,300,000	7,012,000
Capital grants received from the Federal Aviation Administration		13,074,807	8,202,158
Capital grants from other sources		—	31,942
Principal payment on debt due to Long Beach Capital Improvement Corporation		(870,000)	(825,000)
Interest paid		(533,452)	(549,989)
Net cash provided by (used in) capital and related financing activities		7,326,322	(2,589,733)
Cash flows from investing activities – interest earned		464,658	632,371
Net increase in cash and cash equivalents		10,127,362	663,638
Cash and cash equivalents, beginning of year		21,855,813	21,192,175
Cash and cash equivalents, end of year	$	31,983,175	21,855,813
Reconciliation of cash and cash equivalents to statement of financial position:			
Pooled cash and cash equivalents	$	20,133,325	16,635,812
Restricted assets:			
Cash with fiscal agent		2,247,760	67,503
Pooled cash and cash equivalents		9,602,090	5,152,498
Total cash and cash equivalents	$	31,983,175	21,855,813
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(1,960,892)	(828,759)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense		5,727,259	4,928,597
Amortization expense		117,881	122,348
Changes in assets and liabilities:			
Increase (decrease) in assets:			
Accounts receivable		(866,261)	503,714
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		(1,351,393)	(2,536,171)
Accrued wages and compensated absences		30,811	43,052
Due to the City of Long Beach		143,397	(15,680)
Deferred revenues		253,252	(26,296)
Vendor deposits held in trust		7,920	94,369
Total adjustments		4,062,866	3,113,933
Net cash provided by operating activities	$	2,101,974	2,285,174

See accompanying notes to financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Organization and Operations of the Reporting Entity

The City of Long Beach (the City) is a municipal corporation organized and existing under its Charter and the Constitution and the laws of the State of California. The Long Beach Airport Enterprise Fund (the Airport) is operated by the City and is under the direction of the City Manager.

The Airport originated in 1923 when the City Council set aside 150 acres of property to provide for the general and commercial aviation needs of the City. During the late 1940s and 1950s, major land acquisitions enabled the Airport to grow to its present 1,175 acres.

The Airport is strategically located between the major business and tourism areas of both Orange and Los Angeles Counties. There are currently approximately 200 businesses located on Airport property.

The Airport constitutes part of the overall financial reporting entity of the City; accordingly, the Airport's financial statements are included as an enterprise fund in the City's comprehensive annual financial report (CAFR). The control and management of the Airport is vested in the City Council who is advised by a Council-approved nine-member Airport Advisory Commission. The City's CAFR may be obtained by contacting the City's Department of Financial Management at 333 W. Ocean Blvd., Long Beach, CA 90802.

(b) Basis of Accounting and Measurement Focus

The Airport reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Airport is that the costs of providing services to its citizens on a continuing basis be financed or recovered primarily through fees charged in providing Airport services, capital grants, and similar funding. Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues result from exchange transactions associated with the principal activity of the Airport. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grant funding and investment income, result from nonexchange transactions, in which the Airport gives (receives) value without directly receiving (giving) value in exchange. Additionally, passenger facility charges are imposed by the Airport on paying passengers enplaned by the air carriers as authorized by the Federal Aviation Administration. These revenues finance eligible Airport projects to be carried out. The authority is based on the application submitted by the Airport and that the amounts and duration of the passenger facility charges will not result in excess revenues.

(c) Financial Reporting and Implementation of New Accounting Pronouncements

The Airport's financial statements are presented in conformance with the provisions of the Governmental Accounting Standards Board (GASB). The following summarizes implemented GASB pronouncements and their impact, if any, on the financial statements:

(Continued)

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. Application of this statement was effective for the fiscal year ended September 30, 2008 and the additional disclosure required by GASB 45 can be found in note 8.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. The statement focuses on the current or potential detrimental effects of existing pollution through participation in pollution remediation activities such as site assessments and clean-ups. The scope of the statement excludes pollution prevention or control obligations with respect to current operations and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning. The requirements of this statement are effective for financial statements periods beginning after December 15, 2007, and include measurement of pollution remedial liabilities at the beginning of the fiscal period as to restate beginning net assets. Governments with sufficient objective verifiable information to apply expected cash flow techniques to determine prior period liabilities are required to do for all periods presented. Application of this statement is effective for the Airport's fiscal year ending September 30, 2009 and the additional disclosure required by the implementation of GASB Statement No. 49 can be found in note 11.

The Airport is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB statements:

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the Airport's fiscal year ending September 30, 2010.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Application of this statement is effective for the Airport's fiscal year ending September 30, 2011.

Under GASB, enterprise funds, such as the Airport, have the option of consistently following or not following pronouncements issued by the Financial Accounting Standards Board (FASB) subsequent to November 30, 1989. The Airport has elected not to follow FASB standards issued after that date, unless such standards are specifically adopted by GASB.

(d) Assets, Liabilities, and Net Assets

1. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in the Airport's net assets during the reporting period. Actual results could differ from those estimates.

2. Pooled Cash and Cash Equivalents

In order to maximize investment return, the Airport pools its available general cash with that of the City. The cash management pool is used essentially as a demand deposit account by the participating units; therefore, the Airport has defined cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments. Investment decisions are made by the City Treasurer and approved by a general investment committee.

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating unit based on the relationship of an individual unit's respective daily cash balances to aggregate pooled cash and investments. The Airport's share of pooled cash and investments at September 30, 2009 and 2008 was based on fair value.

3. Accounts Receivable and Allowance for Uncollectible Accounts

The Airport extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the Airport uses the allowance method for the reservation and write-off of those accounts.

4. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. The Airport's policy has set the capitalization threshold for reporting capital assets at $5,000. Amortization/depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	50 years
Structures and facilities	10 to 35 years
Runways and improvements	20 years
Automobiles	2 to 6 years
Automotive equipments	10 to 20 years
Machinery and equipment	5 to 20 years
Office, furniture, and fixtures	3 to 20 years

5. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- **Investment in Capital Assets, Net of Related Debt** – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by any outstanding debt against the acquisition, construction, or improvement of those assets.
- **Restricted for Debt Service** – This component of net assets consist of a reserve fund, equal to the least of 10% of the outstanding principal of the 1993 obligation, the maximum annual debt service on the 1993 Obligation, or 125% of the average outstanding debt service on the 1993 Obligation.
- **Restricted for Capital Projects** – This component of net assets consists of restrictions placed on cash and cash equivalents for use of future Airport-related capital projects.
- **Unrestricted Net Assets –** This component of net assets consists of net assets that do not meet the definition of restricted assets listed above.

(2) Pooled Cash and Cash Equivalents and Investments

The Airport's cash and cash equivalents and investments as of September 30, 2009 and 2008 are classified in the accompanying statement of net assets as follows:

		2009	2008
Pooled cash and cash equivalents	$	20,133,325	16,635,812
Pooled cash and cash equivalents, restricted		9,602,090	5,152,498
Total pooled cash and cash equivalents		29,735,415	21,788,310
Restricted cash with fiscal agents – commercial paper		2,247,760	67,503
Total pooled cash and cash equivalents and cash with fiscal agents	$	31,983,175	21,855,813

The majority of the Airport's cash and cash equivalents, including restricted cash, are pooled with the other City's funds and maintained by the City Treasurer. The City requires the Airport to participate in the City Treasurer's pool. As of September 30, 2009 and 2008, the Airport's pooled cash and investments amounted to $29,735,415 or 1.75% and $21,788,310 or 1.28% of the City's pooled cash and investments, respectively. The City's pooled cash and investments as of September 30, 2009 and 2008 are $1,696,159,000 and $1,703,565,000, respectively.

(Continued)

(a) Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provision of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Bonds issued by the City	5 years*	30%	None
U.S. Treasury notes, bonds, or bills	5 years*	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years*	30%	None
Local agency bonds	5 years*	30	None
Federal agency securities	5 years*	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	25	10
Negotiable certificates of deposit	5 years*	30	10
Time certificates of deposit	5 years*	100	10
Repurchase agreements	90 days	100	None
Reverse repurchase agreements	92 days	20	None
Securities lending program	92 days	30	None
Medium-term notes	5 years*	20	10%
Money market funds	N/A	—	10
Local Agency Investment Fund (LAIF)	N/A	None	$40 million
Asset-backed securities	5 years	20%	None
Mortgage-backed securities	5 years	20	None

* Maximum maturity of five (5) years unless a longer maturity is approved by the City Council, either specifically or as part of an investment program, at least three (3) months prior to purchase.

(b) Investments Authorized by Debt Agreement

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements.

(c) Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming closer to maturing evenly over time as necessary to provide cash flow and liquidity needed for operations.

The following schedule indicates the interest rate risk of the City's investments as of September 30, 2009 and 2008 (in thousands):

Investment Type		Fair Value at September 30, 2009	Weighted Average Maturity (in years)	Fair Value at September 30, 2008	Weighted Average Maturity (in years)
Cash and Investments in City Pool					
Inter-department loan					
(Health Savrs)	$	2,654	9.604	2,892	10.600
US Treasury Notes		930,125	0.505	55,816	0.410
Federal Agency securities		592,312	0.500	1,289,369	1.960
Medium-term notes		—	—	84,148	0.990
Local Agency Investment Fund (LAIF)		—	—	160,848	0.090
Government Managed Rate					
Account		104,667	0.003	69,931	0.003
Subtotal City Pool	$	1,629,758		1,663,004	
Cash and Deposits		80,099		60,313	
Outstanding Checks		(13,698)		(19,752)	
Total City Pool	$	1,696,159		1,703,565	
Nonperforming short-term investment	$	3,962		3,962	

(d) *Investments with Fair Values Highly Sensitive to Interest Rate Risk*

The City had no investments that were highly sensitive to market interest rate changes as of September 30, 2009 and 2008. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

(e) *Risks and Uncertainties*

The City may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

The City invests in securities with contractual cash flows, such as asset-backed securities and mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to change in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

(f) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The minimum rating requirements for commercial paper, asset-backed securities, and medium term notes is an A rating. Mortgage-backed security issuers must have a minimum AAA rating. State warrants, state treasury notes, or bonds of the State are to be rated at a minimum of A1/SP-1 for short-term investments and Aa/AA for long-term investments.

Following is the minimum rating required by the California Government Code, the City's investment policy, and the actual ratings as of September 30, 2009 and 2008 for each investment type (in thousands):

		Rating as of September 30, 2009			
Investment Type	**Minimum Legal Rating**	**Fair Value at September 30, 2009**	**Not Required To Be Rated**	**AAA**	**Unrated**
Cash and Investments in City Pool					
Inter-department loan (Health Savrs)	N/A	$ 2,654	2,654	—	—
US Treasury Notes	N/A	930,125	930,125	—	—
Federal agency securities	N/A	592,312	—	592,312	—
Government Managed Rate Account	N/A	104,667	104,667	—	—
Subtotal City Pool		$ 1,629,758	1,037,446	592,312	—
Cash and Deposits		80,099	—	—	80,099
Outstanding Checks		(13,698)	—	—	(13,698)
Total City Pool		$ 1,696,159	1,037,446	592,312	66,401
Nonperforming short-term investment	N/A	$ 3,962	—	—	3,962

Investment Type	Minimum Legal Rating		Fair Value at September 30, 2008	Rating as of September 30, 2008: Not Required To Be Rated	AAA	Unrated
Cash and Investments in City Pool						
Inter-department loan (Health Savrs)	N/A	$	2,892	2,892	—	—
US Treasury Notes	N/A		55,816	55,816	—	—
Federal agency securities	N/A		1,289,369	—	1,289,369	—
Medium-term notes	A		84,148	—	84,148	—
Local Agency Investment Fund (LAIF)			160,848	160,848	—	—
Government Managed Rate Account	N/A		69,931	69,931	—	—
Subtotal City Pool		$	1,663,004	289,487	1,373,517	—
Cash and Deposits			60,313	—	—	60,313
Outstanding Checks			(19,752)	—	—	(19,752)
Total City Pool		$	1,703,565	289,487	1,373,517	40,561
Nonperforming short-term investment	N/A	$	3,962	—	—	3,962

(g) Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent five percent or more of the City's total pooled investments as of September 30, 2009 and 2008 are as follows (in thousands):

Issuer	Investment Type		Reported Amount at September 30, 2009	2008
Federal Farm Credit Bank	Federal agency securities	$	20,823	93,000
Federal Home Loan Bank	Federal agency securities		102,848	477,695
Federal Home Loan Mortgage Association	Federal agency securities		91,865	359,571
Federal National Mortgage Association	Federal agency securities		376,776	359,103
U.S. Treasuries	U.S. Treasury notes and bonds		930,125	55,817
Local Agency Investment Fund (LAIF)	State pool investment		—	160,848

(h) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 of the secured public deposits.

All securities owned by the City are deposited in trust for safekeeping with a custodial bank different from the City's primary bank.

As of September 30, 2009, the City reported deposits for $80,099,000 less $13,698,000 for checks outstanding. As of September 30, 2008, the City reported deposits for $60,313,000 less $19,752,000 for checks outstanding.

(i) Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized-cost basis. Included in LAIF's investment portfolio are mortgage-backed securities, loans to certain state funds, securities with interest rates that vary according to changes in rates greater than a one-for-one basis, and structured basis. During the fiscal year, the City had significant funds invested in the pool; however, at September 30, 2009, the City had withdrawn all funds from LAIF.

(j) Securities Lending

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2009 and 2008. However, from time to time, the City engages in limited securities-lending activities. These activities are governed by formal agreements with the City's contract bank. These agreements limit the nature and amount of the transactions and provide for full collateralization of each transaction.

(3) Capital Assets

Changes in capital assets for fiscal 2009 were as follows:

	2009				
	Beginning balance, October 1	Additions	Deletions/ retirements	Transfers	Ending balance, September 30
Nondepreciable assets:					
Land	$ 6,363,728	—	—	—	6,363,728
Construction in progress	12,436,436	18,582,184	—	(19,598,907)	11,419,713
Total nondepreciable assets	18,800,164	18,582,184	—	(19,598,907)	17,783,441
Depreciable assets:					
Building	17,340,544	19,998	—	248,889	17,609,431
Runways and improvements	135,442,934	—	—	18,854,742	154,297,676
Automotive equipment	2,599,071	—	—	—	2,599,071
Infrastructure	128,149	—	—	—	128,149
Machinery and equipment	2,341,064	38,031	(424,805)	495,276	2,449,566
Furniture and fixtures	48,020	—	—	—	48,020
Total depreciable assets	157,899,782	58,029	(424,805)	19,598,907	177,131,913
Total capital assets	176,699,946	18,640,213	(424,805)	—	194,915,354
Less accumulated depreciation	(58,027,687)	(5,727,259)	424,805	—	(63,330,141)
Capital assets, net	$ 118,672,259	12,912,954	—	—	131,585,213

Changes in capital assets for fiscal 2008 were as follows:

	2008				
	Beginning balance, October 1	Additions	Deletions/ retirements	Transfers	Ending balance, September 30
Nondepreciable assets:					
Land	$ 6,419,114	—	(55,386)	—	6,363,728
Construction in progress	23,722,369	21,246,213	—	(32,532,146)	12,436,436
Total nondepreciable assets	30,141,483	21,246,213	(55,386)	(32,532,146)	18,800,164
Depreciable assets:					
Building	14,865,972	—	(14)	2,474,586	17,340,544
Runways and improvements	105,385,374	—	—	30,057,560	135,442,934
Automotive equipment	2,599,071	—	—	—	2,599,071
Infrastructure	128,149	—	—	—	128,149
Machinery and equipment	2,272,322	68,742	—	—	2,341,064
Furniture and fixtures	48,020	—	—	—	48,020
Total depreciable assets	125,298,908	68,742	(14)	32,532,146	157,899,782
Total capital assets	155,440,391	21,314,955	(55,400)	—	176,699,946
Less accumulated depreciation	(53,099,090)	(4,928,597)	—	—	(58,027,687)
Capital assets, net	$ 102,341,301	16,386,358	(55,400)	—	118,672,259

(4) Long-Term Debt

(a) 1993 Refunding Certificate of Participation

The City entered into an installment purchase obligation (1993 Obligation) with the Long Beach Capital Improvement Corporation (LBCIC), a specialized financing authority of the City, in the amount of $16,815,000 effective June 1, 1993, for the purpose of refinancing the acquisition, construction, and installation of various improvements to certain facilities of the Airport.

In July 1993, the proceeds of the 1993 Obligation were used to advance refund a prior obligation with the LBCIC dated June 1, 1991 (1991 Obligation). As a result of the advance refunding, the 1991 Bonds were subsequently called in June 1999, and the liability for this obligation was removed from the Airport's books and records.

The 1993 Obligation matures in installments ranging from $170,000 to $1,230,000 from June 1, 1994 through June 1, 2016 and bears interest at rates from 2.70% to 5.35%, payable semiannually on June 1 and December 1 of each year. The principal maturing on June 1, 2016 is subject to mandatory annual prepayments ranging from $1,010,000 to $1,230,000 beginning June 1, 2012. The amounts maturing on June 1, 2016 are also subject to optional prepayment in whole or in part, any date on or after June 1, 2003, at a prepayment price equal to the principal and accrued interest to the date of prepayment.

Amounts maturing June 1, 2004 through June 1, 2009 are subject to optional prepayment prior to their respective maturities in whole or in part, in inverse order of maturity, any date on or after June 1, 2003. The amount of such optional prepayments is equal to the principal, accrued interest to the date of prepayment plus a prepayment premium, if applicable. The premium is computed on the principal prepaid at a rate of 2% during the year beginning June 1, 2003, and 1% for the year beginning June 1, 2004. There is no premium applicable to prepayments made on or after June 1, 2005.

A Reserve Fund, equal to the lesser of (i) 10% of the outstanding principal of the 1993 Obligation, (ii) the maximum annual debt service on the 1993 Obligation, or (iii) 125% of the average outstanding debt service on the 1993 Obligation, is required. The balance in the Reserve Fund at September 30, 2009 and 2008 was $1,295,250 and is included in restricted cash and cash equivalents in the statements of net assets. The Reserve Fund represents the maximum annual debt service on the 1993 Obligation at September 30, 2009 and 2008.

The 1993 Obligation is secured by the Airport's "Net Revenues," defined as the gross revenues during each fiscal year, net of certain capital contributions and grants, less the maintenance and operation costs during each fiscal year, net of depreciation and amortization. Additionally, the obligation of the Airport to pay the principal component of the 1993 Obligation and certain accrued interest is supported by a municipal bond guaranty insurance policy.

(b) Airport Projects Commercial Paper Notes

On October 19, 2004, the City Council authorized the Airport to issue, on an as-needed basis, up to $15,000,000 of variable rate, Airport Projects Commercial Paper Notes for short-term financing of qualified Airport capital projects under a commercial paper program expiring on November 1, 2020. On May 20, 2008, the City Council authorized for the program to be expanded to up to $25,000,000. When issued, the net proceeds from the sale of the notes will be used to pay for projects that will be funded by Passenger Facility Charges (PFC) or Federal Aviation Administration (FAA) entitlement grants.

On May 26, 2005, notes in the amount of $1,020,000 were issued. The notes were issued in denominations of $100,000 and integral multiples of $1,000 in excess of $100,000 and mature not more than 270 days after date of issuance. On March 20, 2008, an additional $7,012,000 were issued. In December 2008, an additional $8,300,000 were issued. Interest rates have ranged from 1.35% to 3.8%. Issuance costs related to the program were $275,824 and are being amortized using the straight-line method over the life of the program. Annual amortization of issuance costs is $17,239. The Airport has the ability to and continues to extend the notes to periods greater than a year. Amounts the Airport has planned to repay within a year have been classified as short-term obligations. The remaining outstanding amounts have been classified as long-term obligations.

Changes in long-term debt amounts for 2009 were as follows:

	Balance, 2008	Additions	Principal payments	Balance, 2,009	Due within one year
Long-term debt:					
1993 Refunding COP	$ 8,350,000	—	(870,000)	7,480,000	920,000
Commercial paper (CP)	8,032,000	8,300,000	—	16,332,000	4,000,000
Unamortized discount – COP	(127,645)	—	24,124	(103,521)	(22,905)
Unamortized deferred loss – COP	(403,912)	—	76,336	(327,576)	(72,480)
Unamortized issuance costs – COP	(128,608)	—	24,306	(104,302)	(23,078)
Unamortized issuance costs – CP	(206,868)	—	17,239	(189,629)	(17,239)
Total long-term debt	15,514,967	$ 8,300,000	(727,995)	23,086,972	$ 4,784,298
Less current portion	(870,000)			(4,920,000)	
Total long-term debt, net of current portion	$ 14,644,967			$ 18,166,972	

Changes in long-term debt amounts for 2008 were as follows:

	Balance, 2007	Additions	Principal payments	Balance, 2008	Due within one year
Long-term debt:					
1993 Refunding COP	$ 9,175,000	—	(825,000)	8,350,000	870,000
Commercial paper (CP)	1,020,000	7,012,000	—	8,032,000	—
Unamortized discount – COP	(152,840)	—	25,195	(127,645)	(24,124)
Unamortized deferred loss – COP	(483,636)	—	79,724	(403,912)	(76,336)
Unamortized issuance costs – COP	(153,993)	—	25,385	(128,608)	(24,306)
Unamortized issuance costs – CP	(224,107)	—	17,239	(206,868)	(17,239)
Total long-term debt	9,180,424	$ 7,012,000	(677,457)	15,514,967	$ 727,995
Less current portion	(825,000)			(870,000)	
Total long-term debt, net of current portion	$ 8,355,424			$ 14,644,967	

Debt service requirements to maturity for the 1993 Obligation at September 30, 2009 are summarized as follows:

		Principal	Interest	Total
Fiscal years:				
2010	$	920,000	374,000	1,294,000
2011		965,000	328,000	1,293,000
2012		1,010,000	279,750	1,289,750
2013		1,065,000	229,250	1,294,250
2014		1,115,000	176,000	1,291,000
2015 – 2016		2,405,000	181,750	2,586,750
Total	$	7,480,000	1,568,750	9,048,750

(5) Due to City of Long Beach

The City provides services to the Airport under a negotiated Memorandum of Understanding. At September 30, 2009 and 2008, the Airport's unpaid charges totaled $252,020 and $108,623 respectively. For 2009, the amount of $252,020 includes the benefits portion of the accrued wages to be paid to the employee benefits fund of $124,520 and $127,500 for the underground storage tank consent decree penalty and legal fees allocation per agreement with the State Water Resources Control Board. For fiscal year 2008, $108,623 represents benefits on accrued wages recorded as amounts due to the City.

(6) Passenger Facility Charge (PFC)

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose PFCs on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security, or capacity of the national air transportation system; (2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers. In April 2003, the FAA approved the Airport’s application to collect PFCs for specifically approved airport improvement projects. The collection authority was for $30,306,984 for six years ending October 1, 2009. On July 7, 2006, the Airport was given approval for an additional collection authority of $32,037,919, which amended the total PFC amount collected to $62,344,903 ending May 1, 2017. Effective August 1, 2003, the Airport began collecting PFCs in the amount of $3 per enplaning passenger.

On September 14, 2006, the Airport was given approval for a new application that granted collection authority of $7,148,186 with a charge effective date of May 1, 2017 and a charge expiration date of December 1, 2018. On March 21, 2008, the FAA approved the Airport’s amendment request to increase the collection level from $3.00 to $4.50 to be effective May 1, 2008 for the two approved PFC applications. It was also approved to change the expiration date from May 1, 2017 to October 1, 2014 for the first approved application for $62,344,903. The second approved application’s estimated charge expiration date was also changed from December 1, 2018 to November 1, 2015.

A third application for the design and construction of a new terminal building was approved on April 22, 2008. The FAA approval allowed the Airport to continue to collect the PFC charge at the $4.50 level with total PFC remittances net of air carrier's compensation totaling $69,137,000. The earliest effective date for the third application PFC charge will be November 1, 2015 and is based on the estimated expiration date of the approved second application. According to the FAA, the Airport is required to submit an application to use the PFC revenue within three years of the approval date and begin implementation within five years of the approval date.

The PFC funds are recognized on the accrual basis of accounting, and the funds collected are restricted and may be used only on specifically approved projects. Due to their restricted use, PFCs are categorized as nonoperating revenues. All funds collected must be maintained in an interest-bearing account with the City Treasurer prior to reimbursement. PFC revenue for 2009 and 2008 was $6,005,439 and $4,979,180, respectively. Interest earned on these funds for 2009 and 2008 amounted to $93,876 and $188,772, respectively.

(7) Defined Benefit Pension Plan

The Airport participates on a cost-sharing basis with the City in the California Public Employees' Retirement System (CalPERS), a defined benefit, multi-employer pension system that acts as a common investment and administrative agent for entities in California. The Airport is billed by the City for its share of pension costs at the rate established by CalPERS for the City's miscellaneous employees. For fiscal years 2009 and 2008, the Airport's contribution of 100% of their share in pension cost is $850,900 and $799,951, respectively. CalPERS does not calculate a separate pension obligation at the Airport level; accordingly, no separate Airport obligation can be presented herein.

As employees of the City, the Airport's full-time employees are eligible to participate in CalPERS and become vested in the system after five years of service. The City has a multiple-tier retirement plan with benefits varying by plan. Upon vesting, Airport's employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.7% of their highest paid year of employment for each year of credited service for the first tier, and for the second tier effective in fiscal year 2004. The City created a third tier for nonsafety employees hired after October 1, 2006. Vested third tier nonsafety employees who retire at age 55 are entitled to receive an annual retirement benefit, payable monthly for life, in an amount equal to 2.5% of their highest paid year of employment for each year of credited service.

Further information regarding the City's participation in CalPERS may be found in the City's CAFR.

(8) Postretirement Health Care Benefits

(a) Plan Description

The Airport participates in the City's Retired Employees Health Insurance Program. This program is a single-employer defined benefit healthcare plan.

Under the provisions of the City's Personnel Ordinance, upon retirement, the City allows retirees, their spouses, and eligible dependents to use the cash value at retirement of the retiring employee's accumulated unused sick leave to pay for health, dental, and long-term care insurance premiums. Full-time City employees are entitled to receive up to 96 hours of sick leave per year. Unused sick leave may be accumulated until termination or retirement. No sick leave benefits are vested. The City has provided two one-time early retirement incentive programs. The first had a maximum value of $25,000 for employees, based on age, who retired during calendar year 1996 and the second incentive offered a 16-hour increase in sick leave per year of service to management employees who retired by June 30, 2004. In all cases, once the cash value of the retired employee's unused sick leave is exhausted, the retiree can terminate coverage or elect to continue paying the premiums at the retiree's expense.

At September 30, 2009, there were 580 participants in the City's Retired Employees Health Insurance Program, and the noninterest-bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled $17,517,000. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2009 were $7,250,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

(b) Termination Benefits

As of September 30, 2009, the City has recorded a liability in the Employee Benefits Internal Service Fund of $87,342,000 based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, *Accounting of Compensated Absences*. The liability takes into account an estimate of future usage, additional leave accumulation and wage increases for both current retirees and active employees, and an additional amount relating to the sick leave incentive for employees who retired during calendar year 1996. The actuarial study assumes an investment return of 5.0%; wage increases of 3.5% per year for miscellaneous and 4.5% per year for safety employees, and insurance premium increases of 4.5%. The estimated current portion of such obligation of $6,250,000 has been fully funded and the long-term portion of the liability of $81,092,000 is being funded over time, through burden rates charged to the various City funds, applied as a percent of current productive salaries.

(c) Other Postemployment Benefits

As of September 30, 2009, the City has also recorded a liability in the Employee Benefits Internal Service Fund of $10,404,000 based on an actuarial study of the "implicit subsidy" as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). While the City does not directly contribute any funding toward the cost of premiums for retirees, the ability to obtain coverage at an active employee's rate constitutes an economic benefit to the retirees. The inclusion of the retirees in the City's healthcare benefit plans increases the overall health plan rates. The economic benefit is defined as an "implicit subsidy" under GASB 45.

The ability to participate in the City's plan by self-paying the premiums extends for the lifetime of the retiree. However, upon attaining the age of Medicare eligibility, the retiree may enter a plan coordinated by Medicare. Standard actuarial practice assumes that Medicare supplemental plans do not generally give rise to implicit subsidy, and while we have included Medicare eligible retirees in this valuation, their liability under GASB 45 and their implicit subsidy are both $0.

The plan does not issue a separate financial report.

(d) Funding Policy

The contribution requirement of plan members and the City are established and may be amended by the City. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the City Council. As of September 30, 2009, the City has not prefunded the plan and makes contributions to the plan on a pay-as-you-go basis.

(e) Annual OPEB Cost and Net OPEB Obligation

The City's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount that is actuarially determined in accordance with the requirements of GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation at September 30: (in thousands):

		2009	2008
Annual required contribution	$	8,418	8,102
Interest on net OPEB obligation		262	—
Adjustment to annual required contribution		(219)	—
Annual OPEB cost (expense)		8,461	8,102
Contribution made		(3,306)	(2,853)
Increase in net OPEB obligation		5,155	5,249
Net OPEB obligation – beginning of year		5,249	—
Net OPEB obligation – end of year	$	10,404	5,249

The ARC for the City was determined as part of the September 2008 actuarial valuation. For the year ended September 30, 2009, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal year ended		Annual OPEB cost contributed	Percentage of annual OPEB cost		Net OPEB obligation
September 30, 2009	$	8,461	39.1%	$	10,404
September 30, 2008		8,102	35.2		5,249

The OPEB liability is recorded in the City's employee benefits internal service fund and is not recorded in the Airport's financial statements.

(f) Funded Status and Funding Progress

The funded status of the plan as of September 30, 2009 and 2008 was as follows (in thousands):

		2009	2008
Actuarial accrued liability (AAL)	$	110,324	86,868
Actuarial value of plan assets		—	—
Unfunded actuarial accrued liability (UAAL)	$	110,324	86,868
Funded ratio (actuarial value of plan assets/AAL)		—%	—%
Covered payroll	$	295,450	284,484
UAAL as a percentage of covered payroll		37.3%	30.5%
ARC as a percentage of covered payroll		2.8%	2.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(g) Actuarial Methods and Assumption

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 2008 actuarial valuation, the Entry Age Normal (EAN) cost method was used. The actuarial assumptions included a 5% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 12% for HMO plans and 9% for PPO plans that grades down to 4.5% for all plans by September 30, 2021, and an inflation assumption of 3%. The EAN cost method spreads plan costs for each participant from entry date to the expected retirement date. Under the EAN cost method, the plan’s normal cost is developed as a level amount over the participants’ working lifetime. The actuarial value of plan assets was $0. The plans unfunded actuarial accrued liability is being amortized using the level percentage of payroll method on an open basis over 30 years.

(9) Leases, Rentals, and Revenue-Sharing Agreements

The Airport has entered into numerous operating leases as lessor for land and buildings, concessions, including restaurants and food counter, car rental counters and offices and other concession areas, airline counters, offices and other spaces, and other airport facilities. Terms of these leases vary according to the facility leased or services performed, and include fixed minimum payments, a combination of fixed minimum payments and percentages of gross revenues over a base, or percentage of gross revenues.

The minimum fixed portion of future rental income under noncancelable operating leases having an initial term in excess of one year is as follows:

		Amount
Year(s):		
2010	$	6,896,417
2011		6,565,615
2012		5,428,363
2013		4,654,243
2014		4,158,317
2015 – 2019		18,922,474
2020 – 2024		16,688,762
2025 – 2029		15,963,021
2030 – 2034		13,608,694
2035 – 2039		12,542,054
2040 – 2044		9,768,385
2045 – 2049		9,678,474
2050 – 2054		5,818,111
2055 – 2059		3,362,494
2060 – 2064		3,362,494
2065 – 2069		3,362,494
2070 – 2074		3,362,494
2075 – 2079		3,362,494
2080 – 2084		3,223,511
	$	150,728,911

(10) Commitments and Contingencies

(a) Litigation

The Airport is subject to claims and lawsuits arising from the normal course of business. Such claims are routinely evaluated by representatives of the City Attorney's office. The Airport's management may make provision for probable losses if deemed appropriate on advice of legal counsel. To the extent that such provision for damages is considered necessary, appropriate amounts are reflected in the accompanying financial statements. Based upon information obtained from the City Attorney with respect to remaining cases, it is the opinion of management that the estimated liability for unreserved claims and suits will not have a material impact on the financial statements of the Airport.

(b) Insurance

The Airport carries liability insurance separate from the City in the amount of $100 million per occurrence covering general products, aircraft liability, and passengers. The policy also includes $50 million limit per occurrence for the perils of war, hijackings, sabotage, and terrorism. The Airport is included in the City's self-insurance program for workers' compensation claims. Workers' compensation insurance is discussed in detail in the City's CAFR. The Airport paid $124,295 and $214,143 in liability insurance premiums for fiscal years 2009 and 2008, respectively.

(c) Construction Contracts

The Airport has a variety of agreements with private parties relating to the construction, improvement, or modification of its airport facilities. The financing of such construction contracts is being provided from the Airport's PFCs, FAA grants, Airport capital, and commercial paper. The Airport committed to approximately $3,608,861 and $5,268,590 in open construction contracts as of September 30, 2009 and 2008, respectively. At the end of fiscal year 2009, the Airport has active construction projects. The projects include the Airport parking structure, terminal development, and air carrier ramp reconstruction.

(11) Pollution Remediation Obligation

In September 2009, the Regional Water Quality Control Board (Board) identified the Airport as a potentially responsible party for groundwater and soil contaminants found in and around the Airport. The Airport was directed to prepare a technical work plan to characterize the groundwater and free product contaminants at the Airport. The estimated liability for the initial evaluation stage is $150,000. There will be additional costs for determining the source of the contaminant, for monitoring during any mandated monitoring period, and potentially for clean-up activities; however, at September 30, 2009, there is insufficient information to further estimate any liability associated with this site.

(12) Subsequent Event

(a) City of Long Beach Senior Airport Revenue Bonds, Series 2009A

On December 8, 2009, the City issued $9,795,000 Senior Airport Revenue Bonds, Series 2009A. The proceeds of the Series 2009A bonds were used to current refund $4,000,000 of the City's outstanding Series A Subordinate Commercial Paper Notes, to pay interest accruing on the series 2009A and 2009C bonds, fund a reserve requirement for the Series 2009A bonds, and to pay the cost of issuance for the Series 2009A bonds. Debt service on the Series 2009A bonds will be paid through revenues generated by the Airport.

(b) City of Long Beach Senior Airport Revenue Refunding Bonds, Series 2009B

On December 8, 2009, the City issued $6,755,000 Senior Airport Revenue Refunding Bonds, Series 2009B. The proceeds of the Series 2009B bonds were used to refund the City's 1993 Certificates of Participation, fund a reserve requirement for the Series 2009B bonds, and to pay the cost of issuance for the Series 2009B bonds. Debt service on the Series 2009B bonds will be paid through revenues generated by the Airport.

(Continued)

(c) City of Long Beach Taxable Senior Airport Revenue Bonds, Series 2009C

On December 8, 2009, the City issued $44,890,000 Taxable Senior Airport Revenue Bonds, Series 2009C. The proceeds of the Series 2009C bonds were used to finance the Airport Parking Structure, fund a reserve requirement for the Series 2009C bonds, and to pay the cost of issuance for the Series 2009C bonds. Debt service on the Series 2009C bonds will be paid through revenues generated by the Airport.

(d) City of Long Beach Commercial Paper Notes

In March 2010, the Airport issued $4,750,000 of authorized Airport Projects Commercial Paper Notes for finance costs related to the Airport parking structure and terminal development.

SUPPLEMENTAL INFORMATION

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Supplementary Schedule – Rate Covenants (unaudited)

September 30, 2009 and 2008

Rate Covenant

The 1993 Obligation contains a covenant that requires the City to fix and collect rates and charges at the Airport that are reasonably anticipated to be at least sufficient to yield, during each fiscal year, net revenues equal to 125% of the debt service requirement for such fiscal year. The required coverage may be reduced to 100% by taking into account a rate reserve amount on deposit the first day of the fiscal year, so long as the aggregate of coverage provided by the net revenues and the rate reserve amount are at least equal to 125% of the debt service requirement for the fiscal year.

The amount available at September 30, 2009 and 2008, respectively, has been calculated as follows:

		2009	2008
Gross revenues, net of passenger facilities fees and capital contributions	$	29,816,134	31,046,251
Maintenance and operation costs, excluding depreciation		(25,500,702)	(25,952,710)
Net revenues		4,315,432	5,093,541
Rate reserve amount at beginning of year		322,636	322,317
Amount available for debt service		4,638,068	5,415,858
Amount required to be available for debt service per rate covenant:			
Debt service for fiscal year		1,290,545	1,289,270
Rate covenant percentage		125%	125%
Amount required to be available for debt service per rate covenant		1,613,181	1,611,588
Amount available for debt service in excess of amount required to be available for debt service per rate covenant	$	3,024,887	3,804,270

See accompanying independent auditors’ report.