



CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Financial Statements

September 30, 2011 and 2010

(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 year ended September 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express opinions 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 opinions.

As discussed more fully in note 1 to the financial statements, the accompanying financial statements of the Airport are intended to present the financial position and the changes in financial position and cash flows attributable to the Airport. They do not purport to, and do not, present fairly the financial position of the City of Long Beach, California, as of September 30, 2011 and 2010, and the changes in its financial position and its cash flows thereof for the years then 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 respective financial position of the City of Long Beach Airport Enterprise Fund, as of September 30, 2011 and 2010, and the changes in financial position and its cash flows thereof for the year 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, 2012 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, and 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 basic financial statements but are 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Airport's basic financial statements. The accompanying supplementary rate covenant is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying supplementary rate covenant has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

August 10, 2012

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Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited)

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, 2011 and 2010.

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 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 302,000 aircraft movements in 2011. During the fiscal year, the Airport's six airlines accommodated approximately 3.1 million passengers. The percentage of passenger activities by airline was: 78.8% JetBlue Airways, 2.0% Alaska Airlines, 6.6% US Airways, 1.7% Horizon, 5.4% Skywest/Delta Airlines, 4.3% of Allegiant, and 1.2% Frontier. The cargo carriers (Federal Express, United Parcel Service, Catalina Flying Boats, and Airborne Express) transported approximately 28,000 tons of arriving and departing air cargo. 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. The noise impact in these areas is further reduced by the Airport's Quieter Home Program.

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. At the end of the current fiscal year, the Airport shows an increase in net assets compared to fiscal year 2010, which indicates improvement of the Airport's financial condition.

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The following condensed financial information provides an overview of the Airport's financial position as of September 30, 2011, 2010, and 2009:

Condensed Summary of Net Assets

	September 30		
	2011	2010	2009
Assets:			
Capital assets, net	\$ 189,686,480	150,093,499	131,585,213
Other assets	93,491,069	90,012,197	35,748,658
Total assets	<u>\$ 283,177,549</u>	<u>240,105,696</u>	<u>167,333,871</u>
Liabilities:			
Noncurrent liabilities, net	\$ 123,411,301	63,855,554	23,977,498
Other liabilities	8,288,381	33,688,181	8,542,821
Total liabilities	<u>\$ 131,699,682</u>	<u>97,543,735</u>	<u>32,520,319</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 120,975,612	125,375,053	108,498,241
Restricted	22,196,210	15,619,086	12,390,641
Unrestricted	8,306,045	1,567,822	13,924,670
Total net assets	<u>\$ 151,477,867</u>	<u>142,561,961</u>	<u>134,813,552</u>

Analysis Fiscal Year 2011

The assets of the Airport exceeded its liabilities at the close of fiscal year 2011 by \$151.5 million (net assets). Total net assets in 2011 increased by 6.3% or \$8.9 million compared to fiscal year 2010. The increase is due to the following: increase in restricted and unrestricted net assets by \$6.6 million and \$6.7 million, respectively. This was offset by a decrease in invested in capital assets, net of related debt, by \$4.4 million.

The Airport holds \$22.2 million of net assets subject to external restrictions, an increase of \$6.6 million or 42.1% when compared to September 30, 2010. The net increase consists of \$5.6 million reserve for future capital projects and \$932 thousand reserve for debt service and operations and maintenance. Restricted net assets represent 14.7% of the Airport's total net assets.

At the end of FY 2011, the Airport reported unrestricted net assets of \$8.3 million, an increase of \$6.7 million or 429.8% from fiscal year 2010. The increase is primarily the result of current operations. The unrestricted net assets represent 5.5% of the Airport's total net assets.

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 \$121.0 million or 79.9% of the aggregate net assets. Invested in capital assets, net of related debt decreased by \$4.4 million or 3.5% compared to fiscal year 2010. Capital Assets, net increased by \$39.6 million compared to fiscal year 2010. The increase is primarily

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related to construction in progress costs of the airport terminal area improvement project, the air carrier ramp construction project and the parking structure, which was completed in FY 2011. These increases were partially offset by depreciation of \$7.3 million. 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 3.9% or \$3.5 million during fiscal year 2011 compared to the prior fiscal year's increase of 151.8% or \$54.3 million due to the following: Pooled cash and cash equivalents increased by \$6.4 million as a result of operating activities and timely requests for reimbursements of projects expenses by grants and trustee. Nonpooled investments, including interest receivable, also increased by \$11.7 million due to the issuance of the 2010 revenue bonds. These increases were offset by a decrease in cash with fiscal agents, due from other governments and passenger facility charges receivables. The decrease in the cash with fiscal agents of \$12.3 million was due to construction expenses reimbursed by the trustee. Due from other governments decreased by \$1.8 million due to timely drawdowns made in FY 11 to reimburse projects expenses funded by FAA AIP grants. Passenger facility charges receivables decreased by \$771 thousand due to timely submission of PFC fees by the airlines.

The Airport's total liabilities increased by 35.0% or \$34.2 million compared to fiscal year 2010. Current liabilities decreased by \$25.4 million and noncurrent liabilities increased by \$59.6 million. The decrease in current liabilities is primarily due to the refunding of the Commercial Paper for \$17.1 million and the decrease in payables from restricted assets by \$7.7 million due to timely processing of outstanding invoices for the parking structure and terminal development projects. The \$59.6 million increase in noncurrent liabilities is primarily due to the issuance of revenue bonds to finance the terminal development project, refund the remaining outstanding Commercial Paper, and fund the interest accounts, bond reserve, and costs of issuance.

Analysis Fiscal Year 2010

The assets of the Airport exceeded its liabilities at the close of fiscal year 2010 by \$142.6 million (net assets). Total net assets in 2010 increased by 5.7% or \$7.7 million compared to fiscal year 2009. The increase in net assets resulted from a combination of \$3.8 million income from nonoperating activities and \$6.1 million capital grants from the Federal Aviation Administration offset by a \$2.2 million operating loss.

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 \$125.4 million or 87.9% of the aggregate net assets. Invested in capital assets, net of related debt increased by \$16.9 million or 15.6% compared to fiscal year 2009. Capital assets, net increased by \$18.5 million compared to fiscal year 2009. The increase is primarily attributable to the construction of a new parking structure, the airport terminal area improvement project, and the air carrier ramp reconstruction project. 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 151.8% or \$54.3 million during fiscal year 2010 compared to the prior fiscal year's increase of 36.1% or \$9.5 million. The increase in 2010 was primarily the result of the following: Due from other governments increased by \$3.9 million due to the delay in processing requests for reimbursements of Federal Aviation Administration grant-related expenses. Restricted pooled cash and cash equivalents increased by \$13.1 million due to Passenger Facility Charges (PFC) and the restricted cash for operating and maintenance expenses as required by the 2009 bond agreement. Restricted cash with fiscal agents

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and nonpooled investments, including interest receivable, increased by \$25.1 million and \$25.5 million, respectively, due to the issuance of the revenue bonds and investments in short-term notes. These increases were offset primarily by a \$13.5 million decrease in unrestricted pooled cash and cash equivalents due to the reservation of cash for operating and maintenance expenses per bond agreement and increased projects spending prior to 2009 bonds issuance.

The Airport's total liabilities increased by 199.9% or \$65 million compared to fiscal year 2009. Current and noncurrent liabilities increased by \$25.1 million and \$39.9 million, respectively. The increase in current liabilities is primarily due to an increase of \$12.9 million in the current portion of long-term debt, a \$1.3 million increase in accrued interest payable, a \$2.1 million increase in accounts payable and accrued expenses primarily due to outstanding invoices related to operations and various ongoing capital projects, and a \$9.4 million increase in payable from restricted assets due to outstanding invoices for the parking structure project. The \$39.9 million increase in noncurrent liabilities is due to an increase of \$39.9 million in the long-term debt due to the issuance of revenue bonds to finance the construction of a new parking structure, refund a portion of outstanding Commercial Paper, refund the remaining 1993 Certificates of Participation, and fund the required bond reserve, and costs of issuance.

The Airport holds \$15.6 million of net assets subject to external restrictions, an increase of \$3.2 million or 26.1% when compared to September 30, 2009. The net increase consists of \$6.7 million reserve for operations and maintenance as required by the revenue bonds agreement and \$8.9 million reserve for capital projects. Restricted net assets represent 11% of the Airport's total net assets.

At the end of FY 2010, the Airport reported unrestricted net assets of \$1.6 million, a decrease of \$12.4 million or 88.7% from fiscal year 2009. The decrease is primarily the result of a \$13.5 million decrease in unrestricted pooled cash and cash equivalents. Unrestricted net assets represent 1.1% of the Airport's total net assets.

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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 2011, 2010, and 2009.

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

	September 30		
	2011	2010	2009
Operating revenues:			
Land and building rentals	\$ 8,335,068	9,218,191	7,851,198
Parking fees	8,726,170	8,205,638	8,778,840
Airport concessions	4,716,613	4,547,941	4,158,955
Landing, gate, and ramp fees	7,506,369	6,456,191	6,052,865
Other fees and charges	3,132,169	2,604,909	2,425,211
Total operating revenues	<u>32,416,389</u>	<u>31,032,870</u>	<u>29,267,069</u>
Operating expenses:			
Personnel services	9,278,660	9,244,541	8,214,510
Operations and maintenance	9,040,181	8,632,441	9,114,687
City services	8,599,263	7,378,137	6,979,004
General and administrative	1,230,905	938,341	1,074,620
Amortization expense	314,711	147,697	117,881
Depreciation	7,255,437	6,853,050	5,727,259
Total operating expenses	<u>35,719,157</u>	<u>33,194,207</u>	<u>31,227,961</u>
Operating loss	<u>(3,302,768)</u>	<u>(2,161,337)</u>	<u>(1,960,892)</u>
Nonoperating revenues (expenses):			
Interest expense, net	(2,067,762)	(3,194,186)	(77,403)
Passenger facility charges	6,560,515	6,253,610	6,005,439
Operating security agreement	646,592	360,682	352,640
Loss on retired assets	(1,557,433)	(1,140,202)	—
Federal subsidy on Build America Bonds	1,205,286	980,969	—
Other income (expense), net	212,890	588,481	(268,232)
Net nonoperating revenues	<u>5,000,088</u>	<u>3,849,354</u>	<u>6,012,444</u>
Income before capital grants	<u>1,697,320</u>	<u>1,688,017</u>	<u>4,051,552</u>

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Condensed Summary of Revenues, Expenses, and Changes in Net Assets (Continued)

	September 30		
	2011	2010	2009
Federal Aviation Administration capital grants	\$ 7,218,586	6,060,392	11,549,279
Change in net assets	8,915,906	7,748,409	15,600,831
Total net assets – beginning	142,561,961	134,813,552	119,212,721
Total net assets – ending	\$ 151,477,867	142,561,961	134,813,552

Analysis Fiscal Year 2011

Total operating revenues were \$32.4 million for fiscal year 2011, an increase of \$1.4 million or 4.5% compared to fiscal year 2010. The majority of the increase in operating revenues was in landing, gate, and ramp fees, which increased by 16.3% or \$1.1 million due to the increased rates in fees and increase in passengers in 2011.

Total operating expenses, including depreciation, were \$35.7 million for fiscal year 2011, an increase of \$2.5 million or 7.6% over fiscal year 2010. Operations and maintenance expenses increased by 4.7% or \$408 thousand due to increase in maintenance contracts, repair services, general promotion, and outreach services. As the Airport facilities are over fifty years old, constant upkeep is required. As part of that upkeep, the cost of materials and supplies increased from the previous year and there were several unforeseen repairs as a result of this upkeep. City services increased by 16.6% or \$1.2 million due to the increase in the cost of police and fire services. General and administrative services increased by 31.2% or \$293 thousand due to increase in utility costs, which was offset by a decrease in property insurance and departmental overhead. Depreciation expenses increased by 5.9% or \$402 thousand due to the increase in depreciable assets, which includes the completion of the parking structure.

The nonoperating revenues increased by 29.9% or \$1.2 million compared to FY 10 as a result of the following: PFC revenues increased by \$307 thousand due to the increase in passengers and additional carriers providing service at the Airport. The revenues from operating security agreement also increased by \$286 thousand due to the reimbursement of expenses incurred to install the closed circuit television cameras at the Airport. This contract was awarded by the Department of Homeland Security, Transportation Security Administration. In addition, the federal subsidy in relation to the Building America Bonds (BABs) increased by \$224 thousand due to the increased interest expense during FY 11. The federal subsidy paid by the U.S. Treasury is 35% of interest paid to the 2009C bondholders.

Federal Aviation Administration capital grants were \$7.2 million for fiscal year 2011. It increased by 19.1% or \$1.2 million over fiscal year 2010 due to additional grants received for existing and new projects.

Analysis Fiscal Year 2010

Total operating revenues were \$31 million for fiscal year 2010, an increase of \$1.8 million or 6% compared to fiscal year 2009. The majority of the increase in operating revenues was in land and building rentals, which increased due to the Kilroy property rent adjustments in 2010 by 17.4% or \$1.4 million.

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Total operating expenses, including depreciation, were \$33.2 million for fiscal year 2010, an increase of \$2 million or 6.3% over fiscal year 2009. Personnel services increased by 12.5% or \$1 million primarily due to an increase in staffing levels within the Administration division. Operations and maintenance expense decreased by 5.3% or \$482 thousand due to a reduction in the cost of maintenance contracts and other facilities services, a decrease related to the one-time costs associated with the FY 09 underground storage tank settlement, and reduced building rental to Boeing as a result of reduced parking lot D revenues. The increase in city services of 5.7% or \$399 thousand is mainly due to the increase in the cost of City provided police and fire services. Depreciable assets increased by \$19.2 million in September 2009. As a result, depreciation expense increased by \$1.1 million or 19.7% in fiscal year 2010.

Interest expense increased by 543.4% or \$2.9 million due to the issuance of revenue bonds while interest income decreased by 36.8% or \$171 thousand due to lower interest rates prevailing in the market. PFC increased by 4.1% or \$248 thousand due to two new air carriers providing service at the Airport. The loss on retired assets in 2010 amounted to \$1.1 million. Assets were retired due to obsolescence, replacement, removal of the underground storage tanks, improvements made in the baggage areas, and the clearance of land in preparation for the building of the new parking structure. In addition, the Airport received a total of approximately \$981 thousand from the federal government as a subsidy related to the issuance of Build America Bonds. Finally, other income increased by 319.4% or \$857 thousand as a result of damage claim recoveries.

Federal Aviation Administration capital grants were \$6.1 million for fiscal year 2010, a decrease of \$5.5 million over fiscal year 2009. The decrease resulted from a reduction in reimbursable capital grant expenses during FY 10.

Notes to Financial Statements

The notes to the Airport’s financial statements can be found on pages 17 – 41 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, 2011, 2010, and 2009 is as follows:

Summary of Capital Assets, Net

	September 30		
	2011	2010	2009
Land	\$ 8,023,488	6,363,728	6,363,728
Buildings and infrastructure	58,801,634	9,798,167	10,801,334
Runways and improvements	97,133,919	95,416,792	100,078,949
Machinery and equipment	2,174,902	2,525,651	2,921,489
Construction in progress	23,552,537	35,989,161	11,419,713
Total capital assets, net	<u>\$ 189,686,480</u>	<u>150,093,499</u>	<u>131,585,213</u>

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Analysis Fiscal Year 2011

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 \$39.6 million or 26.4% when compared with 2010. The increase is primarily related to construction in progress costs of the airport terminal area improvement project, the air carrier ramp construction project, and the parking structure, which was completed in FY 2011. These increases were partially offset by depreciation of \$7.3 million. Additional information regarding the Airport's capital assets can be found in note 3 to the financial statements.

Analysis Fiscal Year 2010

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 \$18.5 million or 14% when compared with 2009. The biggest increase is in construction in progress, which includes the parking structure project, the airport terminal development, air carrier ramp reconstruction, Taxiway G, rehabilitation of Runway 7R-25L, and the Lakewood and Spring tunnels project. Additional information regarding the Airport's capital assets can be found in note 3 to the financial statements.

Debt Administration

The following table summarizes the Airport's long-term debt (net of current portion) as of September 30, 2011, 2010, and 2009:

Long-Term Debt

	September 30		
	2011	2010	2009
1993 Refunding certificates of participation	\$ —	—	7,480,000
Unamortized loss on refunding – COP	(368,955)	(448,016)	—
Unamortized discount – COP	—	—	(103,521)
Unamortized deferred loss – COP	—	—	(327,576)
Unamortized issuance costs – COP	—	(172,390)	(293,931)
Commercial paper	—	17,082,000	16,332,000
2009 Series A,B&C costs of issuance	(1,076,564)	(1,137,370)	—
2009 Series A,B&C revenue bonds	59,680,000	60,585,000	—
2009 Series A&B unamortized premium/discount	15,592	(4,182)	—
2010 Series A&B costs of issuance	(748,550)	—	—
2010 Series A&B revenue bonds	61,400,000	—	—
2010 Series A&B unamortized premium/discount	(42,919)	—	—
Total long-term debt	118,858,604	75,905,042	23,086,972
Less current portion	(1,330,000)	(17,814,610)	(4,920,000)
Total long-term debt, net of current portion	\$ 117,528,604	58,090,432	18,166,972

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The Senior Airport Revenue Bonds Series 2009A, B, and C and the Senior Airport Revenue Bonds Series 2010A and B have a Fitch rating of A- (stable outlook) and Moody's rating of A2 (stable outlook).

Analysis Fiscal Year 2011

The Airport's total long-term debt increased to \$118.9 million compared to fiscal year 2010 for \$75.9 million, which represents an increase of 56.6% or \$43.0 million. The increase was primarily due to the issuance of the 2010 revenue bonds Series A and B for \$61.4 million. The 2010 revenue bonds were issued to finance the terminal development project, repay the Commercial Paper, fund the reserves, and costs of issuance.

Analysis Fiscal Year 2010

The Airport's total long-term debt increased to \$75.9 million compared to fiscal year 2009 for \$23.1 million, which represents an increase of 228.8% or \$52.8 million. The increase was primarily due to the issuance of the 2009 revenue bonds Series A, B, and C for \$61.4 million. The 2009 revenue bonds were issued to finance the parking structure project.

Additional information of the Airport's long-term debt can be found in note 4 on pages 31 – 35 of this report.

Economic Factors/Outlook

The U.S. Bureau of Economic Analysis reports that the U.S. gross domestic product (GDP) dropped by 1.3% from September 2010 to September 2011. 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 2011, enplaned passengers at the Airport were 1.5 million, representing a slight increase to fiscal year 2010 levels. Air taxi and general aviation activities, however, decreased to 8,061 and 265,018, respectively, compared to 9,239 and 277,871 in fiscal year 2010. 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.

The geographical area served by the Airport primarily encompasses Los Angeles, Orange, Ventura, Riverside, and San Bernardino Counties, 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 in San Bernardino County, 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.

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The Airport is also unique in that its Noise Compatibility Ordinance places 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, 2011, all of the Airport's 41 air carrier slots are being utilized and 9 of the 25 commuter slots are utilized.

The Airport's airline customer base/traffic is predominately origin and destination, thereby not 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 78.8% of the Airport's passengers in fiscal year 2011. Airline load factors for fiscal year 2011 averaged 80%.

Airline operations and related passenger activity should remain strong at the Airport because of its position in the market and the activity restrictions resulting from the noise ordinance. Studies show that demand to fly into and out of the Airport exceeds existing capacity.

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
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Assets	2011	2010
Current assets:		
Pooled cash and cash equivalents (note 2)	\$ 13,056,245	6,611,035
Nonpooled cash and cash equivalents (note 2)	10,100	10,100
Investment – nonperforming (note 2)	50,701	50,701
Accounts receivable, net of allowance for doubtful accounts of \$12,241 and \$13,223 in 2011 and 2010, respectively	2,030,559	2,357,383
Note receivable	74,339	72,466
Due from other governments	2,297,053	4,104,028
Prepaid expenses	42,901	—
Total current assets	<u>17,561,898</u>	<u>13,205,713</u>
Noncurrent assets:		
Restricted assets:		
Pooled cash and cash equivalents (note 2)	22,876,798	22,687,249
Cash with fiscal agents (note 2)	15,072,203	27,328,892
Nonpooled investments (note 2)	36,928,370	25,235,827
Interest receivable	283,053	269,034
Passenger facility charges receivable (note 6)	616,441	1,060,736
Note receivable	152,306	224,746
Capital assets, net (note 3)	189,686,480	150,093,499
Total noncurrent assets	<u>265,615,651</u>	<u>226,899,983</u>
Total assets	<u>283,177,549</u>	<u>240,105,696</u>
Liabilities and Net Assets		
Current liabilities – payable from unrestricted current assets:		
Accounts payable and accrued expenses	1,822,079	3,286,241
Accrued wages and compensated absences	165,313	292,974
Accrued interest payable	2,348,542	1,377,337
Current portion of long-term debt payable (note 4)	1,330,000	17,814,610
Current portion of pollution remediation (note 11)	73,619	18,352
Due to City of Long Beach (note 5)	68,436	151,390
Deferred revenues – current portion	141,404	632,658
Vendor deposits held in trust	267,649	338,564
Payable from restricted assets:		
Accounts payable – passenger facility and commercial paper	2,071,339	9,772,867
Accrued wages payable	—	3,188
Total current liabilities	<u>8,288,381</u>	<u>33,688,181</u>
Noncurrent liabilities:		
Long-term debt, net of current portion (note 4)	117,528,604	58,090,432
Deferred revenues long-term portion	5,882,697	5,669,122
Airport pollution remediation – net of current portion (note 11)	—	96,000
Total noncurrent liabilities	<u>123,411,301</u>	<u>63,855,554</u>
Total liabilities	<u>131,699,682</u>	<u>97,543,735</u>
Net assets:		
Invested in capital assets, net of related debt	120,975,612	125,375,053
Restricted for other purposes	6,958,000	6,710,000
Restricted for debt service	683,560	—
Restricted for capital projects	14,554,650	8,909,086
Unrestricted	8,306,045	1,567,822
Total net assets	<u>\$ 151,477,867</u>	<u>142,561,961</u>

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Land and building rentals	\$ 8,335,068	9,218,191
Parking fees	8,726,170	8,205,638
Airport concessions	4,716,613	4,547,941
Landing, gate, and ramp fees	7,506,369	6,456,191
Other fees and charges	3,132,169	2,604,909
Total operating revenues	<u>32,416,389</u>	<u>31,032,870</u>
Operating expenses:		
Personnel services	9,278,660	9,244,541
Operations and maintenance	9,040,181	8,632,441
City services	8,599,263	7,378,137
General and administrative	1,230,905	938,341
Amortization expense	314,711	147,697
Depreciation (note 3)	7,255,437	6,853,050
Total operating expenses	<u>35,719,157</u>	<u>33,194,207</u>
Operating loss	<u>(3,302,768)</u>	<u>(2,161,337)</u>
Nonoperating revenues (expenses):		
Interest income	155,374	293,488
Passenger facility charges (note 6)	6,560,515	6,253,610
Interest expense	(2,223,136)	(3,487,674)
Operating security agreement	646,592	360,682
Loss on retired assets	(1,557,433)	(1,140,202)
Federal subsidy on Build America Bonds	1,205,286	980,969
Other income, net	212,890	588,481
Total nonoperating revenues, net	<u>5,000,088</u>	<u>3,849,354</u>
Income before capital contributions	1,697,320	1,688,017
Capital contributions – Federal Aviation Administration capital grants	7,218,586	6,060,392
Changes in net assets	8,915,906	7,748,409
Net assets, beginning of fiscal year	<u>142,561,961</u>	<u>134,813,552</u>
Net assets, end of fiscal year	<u>\$ 151,477,867</u>	<u>142,561,961</u>

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Cash Flows

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 32,394,619	30,513,067
Payments for employee salaries and benefits	(9,492,462)	(9,213,505)
Payments for goods and services	(10,981,277)	(9,107,537)
Payments for City services	(8,599,263)	(7,378,137)
	<u>3,321,617</u>	<u>4,813,888</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Security agreement received from the Federal Aviation Administration	332,358	360,682
Receipts from other nonoperating activities	200,316	1,214,271
	<u>532,674</u>	<u>1,574,953</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities:		
Acquisitions of capital assets	(51,163,938)	(15,630,794)
Payments received from the note receivable	70,567	68,226
Receipts from passenger facility charges	7,004,810	6,115,995
Capital grants received from the Federal Aviation Administration	9,091,706	2,168,307
Grants received from other sources	219,930	—
Federal subsidy on Build America Bonds	1,205,286	980,969
Proceeds from commercial paper	—	4,750,000
Payments for commercial paper	(17,082,000)	(4,000,000)
Proceeds from bond issuance	61,400,000	61,440,000
Payments of bond issuance costs	(830,066)	(1,184,899)
Payment to defease 1993 Certificate of Participation notes	—	(7,480,000)
Principal payment on long-term debt	(905,000)	(855,000)
Interest paid	(6,936,328)	(2,234,733)
	<u>2,074,967</u>	<u>44,138,071</u>
Net cash provided by capital and related financing activities		
Cash flows from investing activities:		
Purchase of investments	(36,928,370)	(25,897,265)
Sales and redemptions of investments	25,235,827	—
Interest received	141,355	24,454
	<u>(11,551,188)</u>	<u>(25,872,811)</u>
Net cash used in investing activities		
Net (decrease) increase in cash and cash equivalents	(5,621,930)	24,654,101
Cash and cash equivalents, beginning of fiscal year	<u>56,637,276</u>	<u>31,983,175</u>
Cash and cash equivalents, end of fiscal year	\$ <u>51,015,346</u>	\$ <u>56,637,276</u>
Reconciliation of cash and cash equivalents to the statement of net assets:		
Pooled cash and cash equivalents	\$ 13,056,245	6,611,035
Nonpooled cash and cash equivalents	10,100	10,100
Restricted assets:		
Pooled cash and cash equivalents	22,876,798	22,687,249
Cash with fiscal agent	15,072,203	27,328,892
Total cash and cash equivalents	\$ <u>51,015,346</u>	\$ <u>56,637,276</u>

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Cash Flows

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (3,302,768)	(2,161,337)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation expense	7,255,437	6,853,050
Amortization expense	314,711	147,697
Changes in assets and liabilities:		
Increase (decrease) in assets:		
Accounts receivable	326,824	(143,102)
Prepaid expenses	(42,901)	—
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(667,290)	563,875
Accrued wages and compensated absences	(130,848)	31,036
Due to the City of Long Beach	(82,954)	(100,630)
Deferred revenues	(277,679)	(366,750)
Vendor deposits held in trust	(70,915)	(9,951)
Total adjustments	<u>6,624,385</u>	<u>6,975,225</u>
Net cash provided by operating activities	\$ <u>3,321,617</u>	<u>4,813,888</u>
Supplemental schedule of noncash transactions:		
Accrued capital asset cost	\$ 3,216,205	11,714,605

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

(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 City of 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) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

The Airport applies all Governmental Accounting Standards Board (GASB) Statements and Interpretations. As permitted by GAAP, the Airport has not elected to apply those Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or after November 30, 1989 that may apply to the accounting and reporting practices of the Airport's activities, except those that may conflict with GASB pronouncements.

Amounts reported as program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, operating grants and contributions that are restricted to meeting the operational requirements of a particular function or segment, and capital grants and contributions, including special assessments, that are restricted to meeting the capital requirements of a particular function or segment. Internally dedicated resources, including all taxes, are reported as general revenues rather than as program revenues.

Business-type activities distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a business-type activity's principal ongoing operations. The principal operating revenues of the Airport activities are charges for sales and services. Operating expenses for the Airport funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

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. The Airport's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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 (PFC) are imposed by the Airport on paying passengers enplaned by the air carriers as authorized by the Federal Aviation Administration (FAA). These revenues finance eligible Airport projects to be carried out. The authority to collect the charges is based on the application submitted by the Airport and that the amounts and duration of the PFC 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 GASB. The following summarizes implemented GASB pronouncements and their impact, if any, on the financial statements:

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement is intended to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. Application of this Statement was effective for the Airport's fiscal year ended September 30, 2011 and did not materially impact the Airport's Financial Statements.

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

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The requirement of this Statement improves financial reporting by establishing consistent recognition, measurement, and disclosure requirements for Service Concession Arrangements. The application of this Statement should improve the comparability of financial statements between governments. Application of this Statement is effective for the Airport's fiscal year ending September 30, 2013.

In November 2010, GASB issued Statement No. 61, *Financial Reporting Entity Omnibus*. The requirements of this Statement should result in financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

any equity interest transactions of the Airport. The requirements of this Statement will improve financial reporting by ensuring that the Airport's financial statements do not understate the Airport's financial position and provide for a more consistent and understandable display of any equity interests that the Airport has in a component unit. Application of this Statement is effective for the Airport's fiscal year ending September 30, 2013.

In November 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30 1989 FASB and AICPA Pronouncements*. The requirements of this Statement should improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The Statement should result in a more consistent application of applicable guidance in the financial statements of state and local governments. Application of this Statement is effective for the Airport's fiscal year ending September 30, 2013.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The requirements of this Statement should improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the government's net position. Application of this Statement is effective for the Airport's fiscal year ending September 30, 2013.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and when hedge accounting should continue to be applied. Application of this Statement is effective for the City's fiscal year ending September 30, 2012.

(d) *Assets, Liabilities, and Net Assets*

1. **Use of Estimates**

The preparation of the Airport's basic financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, 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 pooled cash and investments, including restricted pooled cash and investments as cash and cash equivalents. 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 the City's pooled cash and investments and the City's non-performing short-term investment were stated at fair value as of September 30, 2011 and 2010.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

For purposes of the statements of cash flows, the Airport considers all cash pooled with the City plus any other cash deposits or investments to be cash and cash equivalents.

3. Nonpooled Investments

Nonpooled investments are reflected at fair value using quoted market prices. Realized and unrealized gains and losses are included in the accompanying statements of revenues, expenses, and changes in net assets and other income, net.

4. Accounts Receivable, Allowance for Uncollectible Accounts

The Airport extends credit to customers in the normal course of operations. When management deems customer accounts are uncollectible, the Airport uses the allowance method for the reservation and write-off of those accounts. There are no unbilled services at September 30, 2011.

5. Capital Assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the Airport's financial statements.

The Airport defines capital assets as assets with an initial, individual cost of more than five thousand dollars and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The amount of interest costs for \$4.3M incurred during the construction phase of capital assets of the Airport's activities are included as part of the capitalized value of the constructed asset.

Capital assets of the Airport are depreciated 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 equipment	10 to 20 years
Machinery and equipment	5 to 20 years
Office, furniture, and fixtures	3 to 20 years

6. Long-Term Obligations

In the Airport's financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, as a policy, are amortized using the effective interest rate

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bonds payable are reported net of the unamortized portion of applicable premium, discount, or deferred amount on refunding. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding are generally included in interest expense unless otherwise noted.

7. Net Assets

In the Airport's financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the Airport (such as investors, grantors, contributors, and laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. All other net assets are considered unrestricted.

8. Revenue Recognition

The Airport's revenues are recorded when services have been provided and delivered to customers in connection with the Airport's principal ongoing operations. There are no unbilled amounts at year-end.

9. Compensated Absences and Employee Benefits

The Airport records vacation and holiday benefits when earned. Sick leave benefits are recognized on a pro rata basis using an actuarially determined method. These costs are incorporated into the payroll burden rate reimbursable to the City's Employee Benefits Internal Service Fund.

10. Pension Plan and Postretirement Benefits

All full-time Airport employees are members of the State of California Public Employees' Retirement System (CalPERS). The Airport's policy is to fund all accrued pension costs. These costs are determined annually as of October 1 by CalPERS and are incorporated into the payroll burden rate reimbursable to the City's Employee Benefits Internal Service Fund. The Department participates in the City's Retired Employee Health Insurance Program. This program is a single-employer defined benefit healthcare plan.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

(2) Pooled Cash and Cash Equivalents and Investments

The Airport's cash and cash equivalents and investments as of September 30, 2011 and 2010 are classified in the accompanying statements of net assets as follows:

	<u>2011</u>	<u>2010</u>
Pooled cash and cash equivalents	\$ 13,056,245	6,611,035
Pooled cash and cash equivalents, restricted	22,876,798	22,687,249
Total pooled cash and cash equivalents	<u>35,933,043</u>	<u>29,298,284</u>
Petty cash fund	10,100	10,100
Restricted cash with fiscal agents	15,072,203	27,328,892
Nonpooled investments	36,928,370	25,235,827
Total nonpooled cash and cash equivalents	<u>52,010,673</u>	<u>52,574,819</u>
Total pooled and nonpooled cash, cash equivalents, and investments	<u>\$ 87,943,716</u>	<u>81,873,103</u>
Nonperforming short-term investment	<u>\$ 50,701</u>	<u>50,701</u>

The Airport's pooled 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. The total of Airport's pooled cash and cash equivalents as of September 30, 2011 and 2010 amounted to \$35,933,043 or 2.0% and \$29,298,284 or 1.8% of the City's pooled cash and investments as of September 30, 2011 and 2010 of \$1,754,155,000 and \$1,623,493,000, respectively. The Airport has a total of \$50,701 in nonperforming short-term investment with the City. It remains at 1.3% of \$3,962,000, the City's total nonperforming short-term investment in Lehman Brothers Commercial Paper. The Airport's total restricted cash with the trustee as of September 30, 2011 and 2010 amounted to \$52,000,573 or 18.9% and \$52,564,719 or 16.9% of the City's total cash and investments held by bond trustee of \$275,367,000 and \$310,127,000, respectively. The nonpooled investments with the trustee as of September 30, 2011 for \$36,928,370 were invested in U.S. Treasury Notes and Federal Agency Securities while the \$15,072,203 were invested in money market funds. All investments were rated AA+ by Standard and Poor's and AAA by Moody's Investor Service.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

(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 for the City's investment pool. 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 include debt proceeds held by bond trustees that are governed by the provisions of debt agreements.

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in one issuer</u>
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
Bankers 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	20	None
Medium-term notes	5 years*	30	10
Money market funds	N/A	20	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 Agreements

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 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 maturity evenly over time as necessary to provide cash flow and liquidity needed for operations.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

The following schedule indicates the interest rate risk of the City's investments, which includes the amount the Airport fund has invested with the City as of September 30 (in thousands):

Investment type	2011		2010	
	Fair value	Weighted Average Maturity (in years)	Fair value	Weighted Average Maturity (in years)
Cash and investments in City pool:				
Interdepartment loan (Health SAVRS)	\$ 2,111	7.564	\$ 2,383	8.604
U.S. Treasury notes	224,058	1.020	333,400	0.514
Federal agency securities	1,199,477	1.090	1,136,279	1.036
Money market account	704	0.003	137	0.003
LAIF	150,096	0.003	50,116	0.003
Government managed rate account	—	—	220	0.003
Subtotal city pool	1,576,446		1,522,535	
Cash and deposits	192,012		113,126	
Outstanding checks	(14,303)		(12,168)	
Total City pool	\$ 1,754,155		\$ 1,623,493	
Nonperforming short-term investment	\$ 3,962		\$ 3,962	

Nonpooled investments held by the Airport comprise U.S. Treasury Notes and Federal Agency Securities, with a balance of \$36,928,370 and \$25,235,827 at September 30, 2011 and 2010, respectively. The weighted average maturity (in years) for nonpooled investments, which include the construction and reserve funds held at September 30, 2011 was 1.05.

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

The Airport had no investments that were highly sensitive to market interest rate changes as of September 30, 2011 and 2010. 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) 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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

Presented on the following table are the minimum ratings required by the California Government Code, the City's investment policy, and the actual rating as of year-end for each investment type (in thousands):

City's pooled investments investment type	Rating as of year-end 2011					
	Minimum legal rating	Total	Not required to be rated	AAA	AA+	Unrated
Cash and investments in City pool:						
Interdepartment loan (Health SAVRS)	N/A	\$ 2,111	2,111	—	—	—
U.S. Treasury notes	N/A	224,058	224,058	—	—	—
Federal agency securities	N/A	1,199,477	—	—	1,199,477	—
Money market account	N/A	704	—	704	—	—
LAIF	N/A	150,096	—	—	—	150,096
Subtotal City pool		1,576,446	226,169	704	1,199,477	150,096
Cash and deposits		192,012	—	—	—	192,012
Outstanding checks		(14,303)	—	—	—	(14,303)
Total City pool		\$ 1,754,155	226,169	704	1,199,477	327,805
Nonperforming short-term investment	N/A	\$ 3,962	—	—	—	3,962

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

The nonpooled investments in the amount of \$36,928,370 held by the Airport's trustee at September 30, 2011 comprise U.S. Treasury Notes and Federal Agency Securities with an AAA rating.

City's pooled investments investment type	Rating as of year-end 2010					
	Minimum legal rating	Total	Not required to be rated	AAA	AA+	Unrated
Cash and investments in						
City pool:						
Interdepartment loan (Health SAVRS)	N/A	\$ 2,383	2,383	—	—	—
U.S. Treasury notes	N/A	333,400	333,400	—	—	—
Federal agency securities	N/A	1,136,279	—	1,136,279	—	—
Money market account	N/A	137	—	137	—	—
LAIF	N/A	50,116	—	—	—	50,116
Government managed rate account	N/A	220	220	—	—	—
Subtotal City pool		1,522,535	336,003	1,136,416	—	50,116
Cash and deposits		113,126	—	—	—	113,126
Outstanding checks		(12,168)	—	—	—	(12,168)
Total City pool		\$ 1,623,493	336,003	1,136,416	—	151,074
Nonperforming short-term investment	N/A	\$ 3,962	—	—	—	3,962

(f) 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 5% or more of the City's total pooled investments are as follows (in thousands):

Issuer	Investment type	Reported amount	
		2011	2010
Federal Farm Credit Bank	Federal agency securities	\$ 241,381	195,234
Federal Home Loan Bank	Federal agency securities	365,101	329,562
Federal Home Loan Mortgage Corporation	Federal agency securities	292,853	318,718
Federal National Mortgage Association	Federal agency securities	300,142	292,765
U.S. Treasuries	U.S. Treasury notes and bonds	224,058	333,400

(g) 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

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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 government units by pledging securities in an undivided collateral pool held by a depository regulated under the 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the City's 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, 2011, the City reported deposits of \$192.0 million, collateralized in compliance with California Government Code, less \$14.3 million for checks outstanding.

(h) *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 City's 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.

(i) *Reverse Repurchase Agreements*

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2011 and 2010.

(j) *GASB Statement No. 31*

GASB Statement No. 31, *Certain Investments and External Investment – Pools*, requires that certain investments and external investment pools be reported at fair value. At September 30, 2011 and 2010, the effect of valuating the Airport's investments at fair value did not have a material impact on the Airport's financial position.

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(3) Capital Assets

Changes in capital assets for fiscal 2011 were as follows:

	2011				Ending balance, September 30
	Beginning balance, October 1	Additions	Deletions/ retirements	Transfers	
Nondepreciable assets:					
Land	\$ 6,363,728	—	—	1,659,760	8,023,488
Construction in progress	35,989,161	48,384,346	—	(60,820,970)	23,552,537
Total nondepreciable assets	42,352,889	48,384,346	—	(59,161,210)	31,576,025
Depreciable assets:					
Building	17,218,522	—	(472,178)	50,122,557	66,868,901
Runways and improvements	154,419,682	—	(13,874,666)	8,952,689	149,497,705
Automotive equipment	2,599,071	—	—	—	2,599,071
Infrastructure	128,149	—	(6,462)	85,964	207,651
Machinery and equipment	2,459,045	21,505	(483,313)	—	1,997,237
Furniture and fixtures	48,020	—	(48,020)	—	—
Total depreciable assets	176,872,489	21,505	(14,884,639)	59,161,210	221,170,565
Total capital assets	219,225,378	48,405,851	(14,884,639)	—	252,746,590
Less accumulated depreciation	(69,131,879)	(7,255,437)	13,327,206	—	(63,060,110)
Capital assets, net	\$ 150,093,499	41,150,414	(1,557,433)	—	189,686,480

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Changes in capital assets for fiscal 2010 were as follows:

	2010				Ending balance, September 30
	Beginning balance, October 1	Additions	Deletions/ retirements	Transfers	
Nondepreciable assets:					
Land	\$ 6,363,728	—	—	—	6,363,728
Construction in progress	11,419,713	26,492,059	—	(1,922,611)	35,989,161
Total					
nondepreciable assets	<u>17,783,441</u>	<u>26,492,059</u>	<u>—</u>	<u>(1,922,611)</u>	<u>42,352,889</u>
Depreciable assets:					
Building	17,609,431	—	(390,909)	—	17,218,522
Runways and improvements	154,297,676	—	(1,800,605)	1,922,611	154,419,682
Automotive equipment	2,599,071	—	—	—	2,599,071
Infrastructure	128,149	—	—	—	128,149
Machinery and equipment	2,449,566	9,479	—	—	2,459,045
Furniture and fixtures	48,020	—	—	—	48,020
Total depreciable assets	<u>177,131,913</u>	<u>9,479</u>	<u>(2,191,514)</u>	<u>1,922,611</u>	<u>176,872,489</u>
Total capital assets	194,915,354	26,501,538	(2,191,514)	—	219,225,378
Less accumulated depreciation	<u>(63,330,141)</u>	<u>(6,853,050)</u>	<u>1,051,312</u>	—	<u>(69,131,879)</u>
Capital assets, net	<u>\$ 131,585,213</u>	<u>19,648,488</u>	<u>(1,140,202)</u>	<u>—</u>	<u>150,093,499</u>

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(4) Long-Term Debt

Changes in long-term debt amounts for 2011 were as follows:

	<u>Balance, 2010</u>	<u>Additions</u>	<u>Principal payments and amortizations</u>	<u>Balance, 2011</u>	<u>Due within one year</u>
Long-term debt:					
Commercial paper (CP)	\$ 17,082,000	—	(17,082,000)	—	—
Unamortized issuance costs – CP	(172,390)	—	172,390	—	—
2009 Series A issuance costs	(164,098)	—	18,974	(145,124)	—
2009 Series B issuance costs	(98,704)	—	17,419	(81,285)	—
2009 Series C issuance costs	(874,568)	—	24,413	(850,155)	—
2009 Series A revenue bonds	9,795,000	—	—	9,795,000	165,000
2009 Series B revenue bonds	5,900,000	—	(905,000)	4,995,000	925,000
2009 Series C revenue bonds	44,890,000	—	—	44,890,000	—
Unamortized discount – 2009 Series A bonds	(108,378)	—	12,532	(95,846)	—
Unamortized loss on refunding 93 COPS	(448,016)	—	79,061	(368,955)	—
Unamortized premium – 2009 Series B bonds	104,196	—	7,242	111,438	—
2010 Series A costs of issuance	—	(654,361)	62,185	(592,176)	—
2010 Series B costs of issuance	—	(175,705)	19,331	(156,374)	—
2010 Series A revenue bonds	—	48,435,000	—	48,435,000	—
2010 Series B revenue bonds	—	12,965,000	—	12,965,000	240,000
Unamortized premium – 2010 Series A rev bonds	—	66,144	(6,286)	59,858	—
Unamortized discount – 2010 Series B rev bonds	—	(115,482)	12,705	(102,777)	—
Total long-term debt	75,905,042	\$ 60,520,596	(17,567,034)	118,858,604	1,330,000
Less current portion	<u>(17,814,610)</u>			<u>(1,330,000)</u>	
Total long-term debt, net of current portion	\$ 58,090,432			117,528,604	

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Changes in long-term debt amounts for 2010 were as follows:

	<u>Balance, 2009</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Balance, 2010</u>	<u>Due within one year</u>
Long-term debt:					
1993 Refunding COP	\$ 7,480,000	—	(7,480,000)	—	—
Commercial paper (CP)	16,332,000	4,750,000	(4,000,000)	17,082,000	17,082,000
Unamortized discount – COP	(103,521)	—	103,521	—	—
Unamortized deferred loss – COP	(327,576)	—	327,576	—	—
Unamortized issuance costs – COP	(104,302)	—	104,302	—	—
Unamortized issuance costs – CP	(189,629)	—	17,239	(172,390)	(172,390)
2009 Series A issuance costs	—	(178,873)	14,775	(164,098)	—
2009 Series B issuance costs	—	(112,880)	14,176	(98,704)	—
2009 Series C issuance costs	—	(893,146)	18,578	(874,568)	—
2009 Series A revenue bonds	—	9,795,000	—	9,795,000	—
2009 Series B revenue bonds	—	6,755,000	(855,000)	5,900,000	905,000
2009 Series C revenue bonds	—	44,890,000	—	44,890,000	—
Unamortized discount – 2009 Series A bonds	—	(118,136)	9,758	(108,378)	—
Unamortized loss on refunding 93 COPS	—	(512,364)	64,348	(448,016)	—
Unamortized premium – 2009 Series B bonds	—	119,162	(14,966)	104,196	—
Total					
long-term debt	23,086,972	\$ <u>64,493,763</u>	<u>(11,675,693)</u>	75,905,042	<u>17,814,610</u>
Less current portion	<u>(4,920,000)</u>			<u>(17,814,610)</u>	
Total long-term debt, net of current portion	\$ <u>18,166,972</u>			<u>58,090,432</u>	

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Debt service requirements to maturity for the Series 2009 Bonds at September 30, 2011 are summarized as follows:

	Series 2009A Bonds		Series 2009B Bonds		Series 2009C Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
Fiscal years:							
2012	\$ 165,000	459,888	925,000	201,300	—	3,443,675	5,194,863
2013	165,000	453,288	960,000	173,550	—	3,443,675	5,195,513
2014	175,000	446,688	995,000	135,150	—	3,443,675	5,195,513
2015	175,000	439,688	1,040,000	95,350	—	3,443,675	5,193,713
2016	190,000	432,688	1,075,000	53,750	—	3,443,675	5,195,113
2017 – 2021	7,265,000	1,486,862	—	—	—	17,218,374	25,970,236
2022 – 2026	1,660,000	83,000	—	—	7,515,000	16,442,825	25,700,825
2027 – 2031	—	—	—	—	11,645,000	12,769,071	24,414,071
2032 – 2036	—	—	—	—	14,880,000	7,792,566	22,672,566
2037 – 2039	—	—	—	—	10,850,000	1,712,571	12,562,571
Total	\$ 9,795,000	3,802,102	4,995,000	659,100	44,890,000	73,153,782	137,294,984

	Series 2010A Bonds		Series 2010B Bonds		Total
	Principal	Interest	Principal	Interest	
Fiscal years:					
2012	\$ —	2,341,788	240,000	598,975	3,180,763
2013	885,000	2,341,788	250,000	591,775	4,068,563
2014	915,000	2,315,238	255,000	585,525	4,070,763
2015	940,000	2,287,788	265,000	577,875	4,070,663
2016	980,000	2,250,188	270,000	569,925	4,070,113
2017 – 2021	5,630,000	10,519,438	1,520,000	2,685,775	20,355,213
2022 – 2026	7,125,000	9,018,775	1,855,000	2,342,625	20,341,400
2027 – 2031	9,010,000	7,133,000	2,345,000	1,854,250	20,342,250
2032 – 2036	11,500,000	4,643,750	2,990,000	1,207,000	20,340,750
2037 – 2040	11,450,000	1,466,250	2,975,000	381,000	16,272,250
Total	\$ 48,435,000	44,318,003	12,965,000	11,394,725	117,112,728

(a) 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 PFC or FAA entitlement grants.

The note issuances were initially made in May 2005 for \$1,020,000, March and December 2008 for \$7,012,000 and \$8,300,000, respectively, and March 2010 for an additional \$4,750,000. 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. Interest rates have ranged from 0.15% to 0.38%. Issuance costs related to the program were \$275,824 and are being amortized using the

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straight-line method over the life of the program. Annual amortization of issuance costs is \$17,239. The Airport refinanced each commercial paper prior to each 270 day maturity. The most recent refinance was October 2010 and November 2010. The paper was subsequently paid off prior to maturity.

On December 9, 2009, the Series 2009A Bonds (see below) were issued to refund \$4,000,000 of the City's outstanding Series A Subordinate Commercial Paper Notes.

On November 23, 2010, the Series 2010 Bonds (see below) were issued. The proceeds from the issuance of the Series 2010A Bonds, in addition to the unspent Series B Subordinate Airport Commercial Paper Notes for \$447,431, were used to refund series B Subordinate Airport Commercial Paper Notes in the amount of \$3,750,000. The proceeds from the issuance of the Series 2010B Bonds, in addition to the unspent Series A Subordinate Airport Commercial Paper Notes for \$1,511,000, paid for the outstanding Series A Subordinate Airport Commercial Paper Notes in the amount of \$13,332,000.

(b) Senior Airport Revenue Bonds 2009 Series

On November 3, 2009, the City Council authorized the Airport to issue the Senior Airport Revenue Bonds to finance a parking structure project, refinance the design costs financed with Commercial Paper, refund the Airport Certificates of Participation Series 1993, and finance the costs of bond issuance. The Series 2009 bonds authorized to be issued have an original aggregate principal amount of \$61,440,000. The initial issuance of the Series 2009 bonds was dated December 8, 2009. These are secured from the Airport's net revenues and other securities.

The Senior Airport Revenue Bonds Series 2009A were issued in the original aggregate amount of \$9,795,000. The funds were used to pay the following: original issue discount in the amount of \$118,136, underwriters' discount in the amount of \$67,260, fund the interest account on the Series 2009C bonds in the amount of \$4,669,517, Commercial Paper repayment of \$4,000,000, Series 2009A costs of issuance in the amount of \$111,613, and Series 2009A/B reserve account of the senior reserve fund in the amount of \$828,474. The Series 2009A bonds due on or before June 1, 2019 are not subject to optional redemption prior to maturity. The Series 2009A bonds due on or after June 1, 2020 are redeemable at the option of the City on or after December 1, 2019, in whole or in part at any time, from any moneys that may be provided for such purpose and at a redemption price equal to 100% of the principal amount of the Series 2009A bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

The Senior Airport Revenue Refunding Bonds Series 2009B were issued on December 9, 2009 in the original aggregate amount of \$6,755,000 plus an original issue premium in the amount of \$119,162. The funds were used to pay the following: underwriters' discount of \$37,990, Series 2009B costs of issuance in the amount of \$74,890, Series 2009A/B reserve account of the senior reserve fund for \$571,347, and payment of the Series 1993 Certificates for \$6,189,935. The Series 2009B bonds are not subject to redemption prior to maturity.

The Senior Airport Revenue Bonds Series 2009C were issued on December 9, 2009 in the original aggregate amount of \$44,890,000. The funds were used to pay the following: underwriters' discount in the amount of \$394,096, Series 2009C construction fund in the amount of \$40,200,000, Series

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2009C costs of issuance for \$499,050, and Series 2009C reserve account of the senior reserve fund in the amount of \$3,796,854. Before December 1, 2019, the Series 2009C bonds will be subject to redemption prior to maturity at the option of the Airport, in whole or in part (on a pro rata basis), on any business day, at the make-whole redemption price. On or after December 1, 2019, the Series 2009C bonds are redeemable at the option of the Airport in whole or in part at any time, from any moneys that may be provided for such purpose and at a redemption price equal to 100% of the principal amount of the Series 2009C bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

(c) Senior Airport Revenue Bonds 2010 Series

The Senior Airport Revenue Bonds Series 2010A were issued on November 23, 2010 in the original aggregate principal amount of \$48,435,000 with a net original issue premium of \$66,144. The Series 2010A Bonds will finance a portion of the costs of a new passenger concourse at the Airport. It also includes the construction of permanent facilities for passenger holdrooms, restrooms, concessions, and the consolidation of passenger security screenings in one central location. The Series 2010A Project will include approximately 35,000 square feet of new construction and 6,500 square feet of remodeled space. Upon completion of the improvements, the terminal will consist of approximately 74,000 square feet. The proceeds from the issuance, in addition to the unspent Series B Subordinate Airport Commercial Paper Notes for \$447,431, were used to pay the following: project account in the amount of \$37,760,431, fund the interest account in the amount of \$3,564,721, refund series A Subordinate Airport Commercial Paper Notes in the amount of \$3,750,000, deposit to senior reserve fund in the amount of \$3,219,062, and costs of issuance for \$654,361.

The Senior Airport Revenue Bonds Series 2010B were issued on November 23, 2010 in the original aggregate principal amount of \$12,965,000 with a net original issue discount of \$115,482. The proceeds from the issuance of the Series 2010B Bonds and the Series A Subordinate Airport Commercial Paper Notes unspent proceeds for \$1,511,000 paid the following: outstanding Series A Subordinate Airport Commercial Paper Notes in the amount of \$13,332,000, deposit to the Senior Reserve Fund in the amount of \$852,814, and costs of issuance for \$175,705.

The Series 2010 Bonds are special limited obligations of the City, payable solely from and secured by a pledge of net revenues (including Passenger Facility Charge revenues) derived by the City from the operations of the Airport, and such other amounts, funds, and accounts pledged under the Senior Indenture. None of the properties of the Airport are subject to any mortgage or other lien (except for the lien created by the Senior Indenture on the net revenues) for the benefit of the owners of the Series 2010 Bonds, and neither the full faith and credit nor the taxing power of the City, the State, or any political subdivision or agency of the State is pledged to the payment of the principal of or interest on the Series 2010 Bonds.

(5) Due to City of Long Beach

The City provides services to the Airport under a negotiated Memorandum of Understanding. At September 30, 2011 and 2010, the Airport's unpaid charges totaled \$68,436 and \$151,390, respectively. For 2011, the amount of \$68,436 represents the benefits portion of the accrued wages to be paid to the employee benefits fund. For 2010, the amount of \$151,390 includes the benefits portion of the accrued

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wages to be paid to the employee benefits fund of \$149,702 and \$1,688 for the additional indirect costs due to increased project expenses.

(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, amending 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 enplaned passenger.

On September 14, 2006, the Airport was given approval on a new application granting 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 effective May 1, 2008, for the two approved PFC applications. Approval to change the first and second application expiration dates to October 1, 2014 and November 1, 2015, respectively, was granted.

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. The approval for the use authority for this application was received on March 1, 2011. It also increased the approved amount to \$86,532,700 and allowed the total funding to cover bond capital, interest, and financing costs.

On September 2, 2010, the Airport received approval for a fourth application to cover the following specific projects: airfield pavement and infrastructure, Airport aircraft rescue and firefighting station modifications, terminal area access road, residential sound attenuation program, and airfield signage replacement. The PFC charge remains at the \$4.50 level totaling \$10,845,000. The earliest effective date for the fourth application will be September 1, 2025, which follows the estimated expiration date of the third approved application.

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. PFC funds finance eligible Airport projects and 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 2011 and 2010 was \$6,560,515 and \$6,253,610, respectively. Interest earned on these funds for 2011 and 2010 amounted to \$83,368 and \$77,701, respectively.

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(7) Retirement Programs

Plan Description – Public Employees’ Retirement System (CALPERS)

The Airport participates on a cost-sharing basis with the City in the California Public Employees’ Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the state. Benefit provisions and all other requirements are established by state statute and city ordinance. A copy of CalPERS’ annual financial report may be obtained from its executive office at 400 P. Street, Sacramento, California 95814. Since CalPERS is on a fiscal year ending June 30, all actuarial calculations for the City’s retirement plan are made on a fiscal year ending June 30, which differs from the City’s September 30 fiscal year-end.

Under the terms of the contract between CalPERS and the City, all 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.

Vested first and second 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 2.7% of their highest paid year of employment for each year of credited service. The City created tier three for nonsafety employees hired after October 1, 2006. Vested tier three 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. Retirees under the first tier are eligible to receive a maximum annual five percent cost-of-living increase while those under the second and third tier are eligible to receive a maximum annual two percent cost-of-living increase.

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 2011 and 2010, the Airport’s contribution of 100% of their share in pension cost is \$955,111 and \$907,808, respectively. CalPERS does not calculate a separate pension obligation at the Airport level; accordingly, no separate Airport obligation can be presented herein.

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

(8) Postretirement Healthcare Benefits

(a) General 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 thousand for employees, based on age, who retired during calendar year 1996, and the second

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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, 2011, there were 557 participants in the City's Retired Employees Health Insurance Program, and their noninterest-bearing cash value equivalent of the remaining unused sick leave totaled \$20.9 million. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2011 were \$9.0 million and are included as expenses of the City's Employee Benefits Internal Service Fund.

The Airport is billed by the City for its share of postretirement healthcare costs at the rate established for the City's miscellaneous employees and represented 100% of the Airport's share of the postretirement healthcare costs. For fiscal years 2011 and 2010, the Airport's contributions are \$90,702 and \$84,920, respectively. The Airport does not calculate a separate pension obligation.

(b) Termination Benefits

As of September 30, 2011, the City has recorded a liability in the Employee Benefits Internal Service Fund of \$105.7 million based on an actuarial study of current and future retiree accumulated sick leave in accordance with GASB Statement No. 16, *Accounting for Compensated Absences* (GASB 16). The liability takes into account an estimate of future usage, additional leave accumulation, and wage increases for both current retirees and active employees, 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 \$7.8 million has been fully funded and the long-term portion of the liability of \$97.9 million 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, 2011, the City has also recorded a liability in the Employee Benefits Internal Service Fund of \$26.1 million 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 towards the cost of premiums for retirees, the ability to obtain coverage at an active employees 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 an implicit subsidy, and while the City has included Medicare eligible retirees in this valuation, their liability under GASB 45 and their implicit subsidy are both zero.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

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This 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, 2011, the City has not prefunded the plan.

(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 (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 the 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 (in thousands):

Annual required contribution	\$	12,739
Interest on net OPEB obligation		901
Adjustment to annual required contribution		<u>(1,351)</u>
Annual OPEB cost (expense)		12,289
Contribution made		<u>(4,172)</u>
Increase in net OPEB obligation		8,117
Net OPEB obligation – beginning of year		<u>18,022</u>
Net OPEB obligation – end of year	\$	<u><u>26,139</u></u>

The ARC was determined as part of the September 2010 actuarial valuation. For the year ended September 30, 2011, 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):

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
September 30, 2011	\$ 12,289	34.0%	\$ 26,139
September 30, 2010	11,472	33.6	18,022
September 30, 2009	8,461	39.1	10,404
September 30, 2008	8,102	35.2	5,249

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

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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, 2011 was as follows (in thousands):

Actuarial accrued liability (AAL)	\$	130,252
Actuarial value of plan assets		—
		<hr/>
Unfunded actuarial accrued liability (UAAL)	\$	<u>130,252</u>
		<hr/>
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll	\$	328,107
UAAL as a percentage of covered payroll		39.7%
ARC as a percentage of covered payroll		3.9

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 ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

(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.

The September 30, 2011 actuarial valuation used the Entry Age Normal (EAN) cost method. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), an annual healthcare trend rate that begins at 11.3% for HMO plans and 8.6% for PPO plans that grades down to 4.5% for all plans by September 30, 2021, and an inflation assumption of 3.0%. 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 zero. The plan’s 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

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

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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:

	<u>Amount</u>
Year(s):	
2012	\$ 6,268,947
2013	5,100,315
2014	4,432,993
2015	4,387,554
2016	4,278,313
2017 – 2021	19,712,021
2022 – 2026	18,328,636
2027 – 2031	16,667,862
2032 – 2036	14,994,951
2037 – 2041	12,799,408
2042 – 2046	11,255,178
2047 – 2051	10,584,536
2052 – 2056	5,213,444
2057 – 2061	4,668,072
2062 – 2066	4,668,072
2067 – 2071	4,668,072
2072 – 2076	4,668,072
2077 – 2081	4,668,072
2082 – 2086	2,607,896
	<u>\$ 159,972,414</u>

(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.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Notes to Financial Statements

September 30, 2011 and 2010

(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 liability insurance premiums in the amount of \$55,135 for fiscal year 2011. The policy is effective June 30, 2011 through June 30, 2012. The Airport paid \$72,750 in liability insurance premiums for fiscal year 2010.

(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 \$6,802,989 and \$23,353,095 in open construction contracts as of September 30, 2011 and 2010, respectively. At the end of fiscal year 2011, 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 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 results of the site testing performed during fiscal year 2011 showed no Airport-related contaminants were found. Based on these results, the Airport has requested that the Regional Board remove them as possible responsible party. The original estimated liability was \$150,000. As of September 30, 2011, the remaining liability was \$73,619. There is a remote possibility of additional costs related to the determination of the source of the contaminant, for site monitoring, and potentially for site cleanup activities. There is no reasonable expectation of any recovery associated with these potential remediation efforts.

(12) Subsequent Event

City of Long Beach Customer Facility Charge

On January 17, 2012, the Long Beach Airport received City Council approval to implement a Customer Facility Charge (CFC) to fund the construction of a new consolidated rental car facility. The CFC will be applied at a rate of \$10 per rental car transaction in accordance with California Civil Code Section 1936. Phase one construction consisting of a new building and flat parking lot is estimated to cost about \$3 million. It is projected that sufficient funds will be collected in 24 to 30 months to start construct of phase one. Phase two will further expand the flat lot and facility amenities, also at a cost of about \$3 million. Phase two is subject to relocation of certain tenants and is anticipated to be at least five years before construction may start. The Airport will not finance this project with debt, but start construction only after enough CFC revenue has been collected to pay cash for the project. The CFC will sunset at the completion of construction.

SUPPLEMENTAL INFORMATION

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Supplementary Schedule – Rate Covenants

September 30, 2011 and 2010

(Unaudited)

Rate Covenant

The Series 2009 bonds contains a covenant that requires the Airport 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 annual debt service on the outstanding senior bonds in such fiscal year.

The amount available at September 30, 2011 and 2010, respectively, has been calculated as follows:

	<u>2011</u>	<u>2010</u>
Revenues:		
Landing and ramp fees	\$ 5,965,997	5,109,170
Terminal rent, gate, and common use fees	4,691,861	3,972,609
Parking fees	8,726,170	8,205,639
Other Airport concessions	4,466,784	4,319,846
FBO rents and fuel fees	5,661,206	5,548,069
Other land and building rentals and fees	2,904,371	3,877,538
Interest income	155,374	191,064
	<u>32,571,763</u>	<u>31,223,935</u>
Expenses:		
Personnel services	8,937,219	8,718,874
Operations and maintenance	7,139,802	7,380,517
City services	10,820,881	9,629,137
	<u>26,897,902</u>	<u>25,728,528</u>
Net operating revenues	5,673,861	5,495,407
PFC revenues	390,998	—
Transfer	361,562	291,027
	<u>6,426,421</u>	<u>5,786,434</u>
Net revenues available for debt service	\$ <u>6,426,421</u>	<u>5,786,434</u>

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Supplementary Schedule – Rate Covenants

September 30, 2011 and 2010

(Unaudited)

	<u>2011</u>	<u>2010</u>
Amount required to be available for debt service per rate covenant:		
1993 Certificates of Participation	\$ —	187,000
2009 A bonds	—	—
2009 B bonds	1,133,450	977,109
2009 C bonds	—	—
2010 A bonds	—	—
2010 B bonds	312,798	—
	<u>1,446,248</u>	<u>1,164,109</u>
Total debt service for fiscal year	1,446,248	1,164,109
Rate covenant percentage	<u>125%</u>	<u>125%</u>
Amount required to be available for debt service per rate covenant	\$ <u>1,807,810</u>	<u>1,455,136</u>
Excess of net revenues available for debt service	\$ 4,618,611	4,331,298
Debt service coverage	444.35%	497.07%

See accompanying independent auditors' report.