CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Financial Statements

September 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Table of Contents

KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

Independent Auditors' Report

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

We have audited the accompanying financial statements of the City of Long Beach Airport Enterprise Fund (the Airport) as of and for the years ended September 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed more fully in note 1 to the financial statements, the accompanying financial statements of the Airport 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, 2010 and 2009, 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 financial position of the City of Long Beach Airport Enterprise Fund as of September 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2011, on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 is not a required part of the financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental information on page 42 and 43 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

August 29, 2011

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, 2010 and 2009.

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 317,000 aircraft movements in 2010. During the fiscal year, the Airport's six airlines accommodated approximately 2.9 million passengers. The percentage of passenger activities by airline was: 81% JetBlue Airways, 5% Alaska Airlines/Horizon Air, 6% US Airways, 6% Skywest/Delta Airlines, and 2% for Allegiant and Frontier. The cargo carriers (Federal Express, United Parcel Service, Catalina Flying Boats, and Airborne Express) transported approximately 29,500 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. The difference between assets and liabilities is net assets. Increases or decreases in net assets may indicate improvement or deterioration of the Airport's financial condition.

The following condensed financial information provides an overview of the Airport's financial position as of September 30, 2010, 2009, and 2008:

Condensed Summary of Net Assets

	September 30		
	2010	**2009**	**2008**
Assets:			
Capital assets, net	$ 150,093,499	131,585,213	118,672,259
Other assets	90,012,197	35,748,658	26,270,304
Total assets	240,105,696	167,333,871	144,942,563
Liabilities:			
Noncurrent liabilities, net	73,631,609	24,359,828	21,748,486
Other liabilities	23,912,126	8,160,491	3,981,356
Total liabilities	97,543,735	32,520,319	25,729,842
Net assets:			
Invested in capital assets, net of related debt	125,375,053	108,498,241	103,157,292
Restricted	15,619,086	12,390,641	4,915,574
Unrestricted	1,567,822	13,924,670	11,139,855
Total net assets	$ 142,561,961	134,813,552	119,212,721

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

(Continued)

operating and maintenance expenses as required by the 2009 bond agreement. Restricted cash with fiscal agents and non-pooled 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 $15.8 million and $49.3 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, and a $2.1 million increase in accounts payable and accrued expenses primarily due to outstanding invoices related to operations and various ongoing capital projects. The $49.3 million increase in noncurrent liabilities is due to the following: Payables from restricted assets increased by $9.4 million due to outstanding invoices for the parking structure project and an increase by $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.

Analysis Fiscal Year 2009

The assets of the Airport exceeded its liabilities at the close of fiscal year 2009 by $134.8 million (net assets). Total net assets increased by 13% or $15.6 million compared to fiscal year 2008. This change is primarily a combination of $2 million from operating loss, $6 million from net nonoperating revenues of which $6 million is from passenger facilities charges, and $11.5 million from Federal Aviation Administration capital grants.

The Airport's investment in capital assets (land, buildings and infrastructures, furniture and fixtures, machinery and equipment, and construction in progress) less any related debt is $108.5 million or 80% of the aggregate net assets. Investment in capital assets, net of related debt increased $5.3 million or 5% compared to fiscal year 2008. Capital assets, net increased $12.9 million compared to fiscal year 2008. The increase is primarily attributable to the rehabilitation of Taxiways K, D, L & C, the islands between Taxiway C and ramp, and other airport terminal development and modification projects. Capital assets facilitate tenant and airline operations and the Airport does not intend to liquidate such capital assets to fund ongoing operations.

The Airport's total other assets increased by 36.1% or $9.5 million during fiscal year 2009 compared to the prior fiscal year's decrease of 1.2% or $316 thousand. The increase in 2009 was the result of the following: Pooled cash and cash equivalents increased by $3.5 million as compared to 2008 due to a reduction in capital spending.

Cash with fiscal agents increased by $2.2 million due to additional Commercial Paper issuance during fiscal year 2009. PFC collections increased by $4.4 million because of the increased PFC rates from $3.00 to $4.50 effective May 1, 2008. Due from other governments decreased by $1.5 million due to timely processing of reimbursements from the Federal Aviation Administration.

The Airport's total liabilities increased by 26% or $6.8 million compared to fiscal year 2008. The Airport's total long-term debt increased by $7.6 million primarily due to the issuance of $8.3 million of Commercial Paper Notes to finance improvements to Taxiway C and the islands at Taxiway C. The increase was offset by an $870 thousand principal repayment of the 1993 Refunding COP obligation and a decrease in accounts payable and accrued expenses of $1.4 million due to the timely submission and processing of invoices from vendors and contractors.

The Airport holds $12.4 million of net assets subject to external restrictions, an increase of $7.5 million or 152% when compared to September 30, 2008. The increase consists of a $3.8 million increase in amounts restricted for future capital projects from PFC and an increase of $3.7 million from unspent proceeds of Commercial Paper. Restricted net assets represent 9% of the Airport's total net assets and are presented in the statement of net assets as restricted net assets.

At the end of fiscal year 2009, the Airport reported unrestricted net assets of $13.9 million, an increase of $2.8 million or 25% from fiscal year 2008. The increase is a combination of a $6.6 million increase in the unreserved fund balance and a decrease in the long-term fund balance by $3.8 million. Unrestricted net assets represent 10% of the Airport's aggregate net assets, and are not subject to external restrictions. Such unrestricted net assets are available to fund the Airport's continuing obligations.

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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 2010, 2009, and 2008.

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

		September 30		
		2010	**2009**	**2008**
Operating revenues:				
Land and building rentals	$	9,218,191	7,851,198	8,365,197
Parking fees		8,205,638	8,778,840	8,562,484
Airport concessions		4,547,941	4,158,955	5,173,047
Landing, gate, and ramp fees		6,456,191	6,052,865	5,712,496
Other fees and charges		2,604,909	2,425,211	2,239,324
Total operating revenues		31,032,870	29,267,069	30,052,548
Operating expenses:				
Personnel services		9,244,541	8,214,510	7,997,820
Operations and maintenance		8,632,441	9,114,687	9,834,959
City services		7,378,137	6,979,004	6,595,852
General and administrative		938,341	1,074,620	1,401,731
Amortization expense		147,697	117,881	122,348
Depreciation		6,853,050	5,727,259	4,928,597
Total operating expenses		33,194,207	31,227,961	30,881,307
Operating loss		(2,161,337)	(1,960,892)	(828,759)
Nonoperating revenues (expenses):				
Interest income (expense), net		(3,194,186)	(77,403)	122,463
Passenger facility charges		6,253,610	6,005,439	4,979,180
Operating security agreement		360,682	352,640	287,875
Loss on retired assets		(1,140,202)	—	—
Federal subsidy BABs		980,969	—	—
Other income (expense), net		588,481	(268,232)	47,951
Net nonoperating revenues		3,849,354	6,012,444	5,437,469
Income before capital grants		1,688,017	4,051,552	4,608,710

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

		September 30		
		2010	**2009**	**2008**
Federal Aviation Administration capital grants	$	6,060,392	11,549,279	7,495,543
Capital grants – other sources		—	—	31,942
Change in net assets		7,748,409	15,600,831	12,136,195
Total net assets – beginning		134,813,552	119,212,721	107,076,526
Total net assets – ending	$	142,561,961	134,813,552	119,212,721

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.

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.

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Analysis Fiscal Year 2009

Total operating revenues were $29.3 million for fiscal year 2009, a decrease of $785 thousand compared to fiscal year 2008. Land and building rentals decreased by 6%; parking fees increased by 3%; airport concessions decreased by 20%; and landing, gate, and ramp fees increased by 6%; other fees and charges increased by 8%. The decrease in operating revenues is primarily attributable to the decrease in the commissions received from the car rental companies operating within the Airport. This is primarily a result of reduced demand associated with the national recession.

Total operating expenses were $31.2 million for fiscal year 2009, an increase of $347 thousand over fiscal year 2008. Personnel services increased by $217 thousand or 3% primarily due to additional personnel in the Security and Maintenance and Facilities divisions. In addition, effective October 1, 2008, Special Services Officers received skill and marksmanship pay. Operations and maintenance expenses decreased by $720 thousand or 7% due to decreases in the electricity and power costs, contract security services, maintenance contracts, and other facilities services at the Airport. The increase in city services by $383 thousand or 6% is mainly due to the increase in fire services for fiscal year 2009. General and administrative expenses in fiscal year 2009 are lower by $327 thousand or 23% compared to fiscal year 2008. This decrease is due to reduced maintenance and service expenses for computers and equipment in fiscal year 2009 and reduced costs of insurance. Depreciable assets increased by about $19.2 million during the fiscal year. As a result, depreciation expense increased by $799 thousand or 16% during the fiscal year.

Interest expense, net in 2009 decreased by $200 thousand due to lower interest rates prevailing in the market. PFC increased by $1 million or 21% due to an increase in PFC fees from $3.00 to $4.50 per enplaned passengers effective June 1, 2008. This was accompanied by an increase in enplaned passengers. The operating security agreements increased $65 thousand or 22% due to the additional reimbursement of electrical and janitorial expenses from the Transportation Security Administration to the Airport. Other expense, net increased by $316 thousand as a result of provisions for pollution remediation costs for $150 thousand, as directed by the Regional Water Quality Board and the Airport portion of the City's settlement with the State Water Resources Control Board for $128 thousand.

The Federal Aviation Administration capital grants were $11.5 million for fiscal year 2009, an increase of $4 million over fiscal year 2008. The increase was provided by the Federal Aviation Administration approved grant funds.

Notes to Financial Statements

The notes to the Airport's financial statements can be found on pages 18 – 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, 2010, 2009, and 2008 is as follows:

Summary of Capital Assets, Net

		September 30		
		2010	2009	2008
Land	$	6,363,728	6,363,728	6,363,728
Buildings and infrastructure		9,798,167	10,801,334	11,290,656
Runways and improvements		95,416,792	100,078,949	85,847,224
Machinery and equipment		2,525,651	2,921,489	2,734,215
Construction in progress		35,989,161	11,419,713	12,436,436
Total capital assets, net	$	150,093,499	131,585,213	118,672,259

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.

Analysis Fiscal Year 2009

The Airport's investment in capital assets includes land, buildings and infrastructure, runways and improvements, machinery and equipment, and construction in progress. Capital assets, net of depreciation, increased by $12.9 million or 11% when compared with 2008. The biggest increase is in runways and improvements due to the completion of the rehabilitation of Taxiways D, K, L, & C, and the islands between Taxiway C and the ramp. Construction in progress includes ongoing projects for the Airport terminal development project, new parking structure, air carrier ramp reconstruction, taxi lane J, and the rehabilitation of Runway 7R-25L. Additional information regarding the Airport's capital assets can be found in note 3 to the financial statements.

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Debt Administration

The following table summarizes the Airport's long-term debt (net of current portion) as of September 30, 2010, 2009, and 2008:

Long-Term Debt

	September 30		
	2010	**2009**	**2008**
1993 Refunding COP	$ —	7,480,000	8,350,000
Commercial paper	17,082,000	16,332,000	8,032,000
Unamortized discount – COP	—	(103,521)	(127,645)
Unamortized deferred loss – COP	—	(327,576)	(403,912)
Unamortized issuance costs – COP	—	(104,302)	(128,608)
Unamortized issuance costs – COP	(172,390)	(189,629)	(206,868)
2009 Series A costs of issuance	(164,098)	—	—
2009 Series B costs of issuance	(98,704)	—	—
2009 Series C costs of issuance	(874,568)	—	—
2009 Series A revenue bonds	9,795,000	—	—
2009 Series B revenue bonds	5,900,000	—	—
2009 Series C revenue bonds	44,890,000	—	—
Unamortized discount – 2009 Series A rev bonds	(108,378)	—	—
Unamortized loss on refunding 93 COPs	(448,016)	—	—
Unamortized premium – 2009 Series B rev bonds	104,196	—	—
Total long-term debt	75,905,042	23,086,972	15,514,967
Less current portion	(17,814,610)	(4,920,000)	(870,000)
Total long-term debt, net of current portion	$ 58,090,432	18,166,972	14,644,967

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

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

The Senior Airport Revenue Bonds Series 2009A, B, and C have a Fitch, Moody's, and S&P assigned ratings of "A-" (stable outlook), "A2" (stable outlook), and "BBB" (stable outlook), respectively.

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 30 – 33 of this report.

Analysis Fiscal Year 2009

The Airport's total long-term debt increased by $7.6 million or 49% compared to fiscal year 2008. The increase was primarily due to the issuance of commercial paper for $8.3 million for the rehabilitation of Taxiway C, the islands between Taxiway C and the ramp and design of the new parking structure.

Economic Factors/Outlook

The U.S. Bureau of Economic Analysis reports that the U.S. gross domestic product (GDP) dropped by 1.8% from September 2009 to September 2010. 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 2010, enplaned passengers at the Airport were 1.46 million, representing a less than 1% decrease as compared to fiscal year 2009 levels. Air taxi and general aviation activities, however, increased to 12,952 and 291,730, respectively, compared to 7,558 and 264,041 in fiscal year 2009. 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, the other four airports are: 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.

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, 2010, 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 80.7% of the Airport's passengers in fiscal year 2010. Airline load factors for fiscal year 2010 averaged 78%.

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

September 30, 2010 and 2009

Assets		2010	2009
Current assets:			
Pooled cash and cash equivalents (note 2)	$	6,621,135	20,133,325
Investment-nonperforming		50,701	50,701
Accounts receivable, net of allowance for doubtful accounts of $13,223 and $25,544 in 2010 and 2009, respectively		2,357,383	2,214,281
Note receivable		72,466	70,826
Due from other governments		4,104,028	211,942
Total current assets		13,205,713	22,681,075
Noncurrent assets:			
Restricted assets:			
Pooled cash and cash equivalents (note 2)		22,687,249	9,602,090
Cash with fiscal agents (note 2)		27,328,892	2,247,760
Nonpooled investments (note 2)		25,235,827	—
Interest receivable		269,034	—
Passenger facility charges receivable (note 6)		1,060,736	923,121
Note receivable		224,746	294,612
Capital assets, net (note 3)		150,093,499	131,585,213
Total noncurrent assets		226,899,983	144,652,796
Total assets		240,105,696	167,333,871
Liabilities and Net Assets			
Current liabilities – payable from unrestricted current assets:			
Accounts payable and accrued expenses		3,286,241	1,242,159
Accrued wages and compensated absences		292,974	265,126
Accrued interest payable		1,377,337	124,667
Current portion of long-term debt payable (note 4)		17,814,610	4,920,000
Current portion of pollution remediation (note 11)		18,352	150,000
Due to City of Long Beach (note 5)		151,390	252,020
Deferred revenues – current portion		632,658	858,004
Vendor deposits held in trust		338,564	348,515
Total current liabilities		23,912,126	8,160,491
Noncurrent liabilities:			
Payable from restricted assets:			
Accounts payable-passenger facility and commercial paper		9,772,867	382,330
Accrued wages payable		3,188	—
Long-term debt, net of current portion (note 4)		58,090,432	18,166,972
Deferred revenues long-term portion		5,669,122	5,810,526
Airport pollution remediation – net of current portion (note 11)		96,000	—
Total noncurrent liabilities		73,631,609	24,359,828
Total liabilities		97,543,735	32,520,319
Net assets:			
Invested in capital assets, net of related debt		125,375,053	108,498,241
Restricted for other purposes		6,710,000	—
Restricted for debt service		—	1,295,250
Restricted for capital projects		8,909,086	11,095,391
Unrestricted		1,567,822	13,924,670
Total net assets	$	142,561,961	134,813,552

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, 2010 and 2009

	2010	2009
Operating revenues:		
Land and building rentals	$ 9,218,191	7,851,198
Parking fees	8,205,638	8,778,840
Airport concessions	4,547,941	4,158,955
Landing, gate, and ramp fees	6,456,191	6,052,865
Other fees and charges	2,604,909	2,425,211
Total operating revenues	31,032,870	29,267,069
Operating expenses:		
Personnel services	9,244,541	8,214,510
Operations and maintenance	8,632,441	9,114,687
City services	7,378,137	6,979,004
General and administrative	938,341	1,074,620
Amortization expense	147,697	117,881
Depreciation (note 3)	6,853,050	5,727,259
Total operating expenses	33,194,207	31,227,961
Operating loss	(2,161,337)	(1,960,892)
Nonoperating revenues (expenses):		
Interest income	293,488	464,658
Passenger facility charges (note 6)	6,253,610	6,005,439
Interest expense	(3,487,674)	(542,061)
Operating security agreement	360,682	352,640
Loss on retired assets (note 3)	(1,140,202)	—
Federal subsidy on Build America Bonds	980,969	—
Other income (expense), net	588,481	(268,232)
Total nonoperating revenues, net	3,849,354	6,012,444
Income before capital contributions	1,688,017	4,051,552
Capital contributions – Federal Aviation Administration capital grants	6,060,392	11,549,279
Changes in net assets	7,748,409	15,600,831
Net assets, beginning of fiscal year	134,813,552	119,212,721
Net assets, end of fiscal year	$ 142,561,961	134,813,552

See accompanying notes to financial statements.

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Cash Flows

Years ended September 30, 2010 and 2009

		2010	2009
Cash flows from operating activities:			
Cash receipts from customers	$	30,513,067	28,661,980
Payments for employee salaries and benefits		(9,213,505)	(8,183,699)
Payments for goods and services		(9,107,537)	(11,397,303)
Payments for City services		(7,378,137)	(6,979,004)
Net cash provided by operating activities		4,813,888	2,101,974
Cash flows from noncapital financing activities:			
Security agreement received from the Federal Aviation Administration		360,682	352,640
Receipts (payments) from other nonoperating activities		1,214,271	(118,232)
Net cash provided by noncapital financing activities		1,574,953	234,408
Cash flows from capital and related financing activities:			
Acquisitions of capital assets		(15,630,794)	(18,640,213)
Payments received from the note receivable		68,226	65,700
Receipts from passenger facility charges		6,115,995	5,929,480
Capital grants received from the Federal Aviation Administration		2,168,307	13,074,807
Payment of federal subsidy on Build America Bonds		980,969	—
Proceeds from commercial paper		4,750,000	8,300,000
Payments for commercial paper		(4,000,000)	—
Proceeds from bond issuance		61,441,026	—
Payments of bond issuance costs		(1,184,899)	—
Payment to defease 1993 Certificate of Participation notes		(7,480,000)	—
Principal payment on long-term debt		(855,000)	(870,000)
Interest paid		(2,235,759)	(533,452)
Net cash provided by capital and related financing activities		44,138,071	7,326,322
Cash flows from investing activities			
Purchase of investments		(25,897,265)	—
Interest received		24,454	464,658
Net cash provided by (used in) investing activities		(25,872,811)	464,658
Net increase in cash and cash equivalents		24,654,101	10,127,362
Cash and cash equivalents, beginning of fiscal year		31,983,175	21,855,813
Cash and cash equivalents, end of fiscal year	$	56,637,276	31,983,175
Reconciliation of cash and cash equivalents to the statement of net assets:			
Pooled cash and cash equivalents	$	6,621,135	20,133,325
Restricted assets:			
Pooled cash and cash equivalents		22,687,249	9,602,090
Cash with fiscal agent		27,328,892	2,247,760
Total cash and cash equivalents	$	56,637,276	31,983,175

(Continued)

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Statements of Cash Flows

Years ended September 30, 2010 and 2009

		2010	**2009**
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(2,161,337)	(1,960,892)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense		6,853,050	5,727,259
Amortization expense		147,697	117,881
Changes in assets and liabilities:			
Decrease in assets:			
Accounts receivable		(143,102)	(866,261)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		563,875	(1,351,393)
Accrued wages and compensated absences		31,036	30,811
Due to the City of Long Beach		(100,630)	143,397
Deferred revenues		(366,750)	253,252
Vendor deposits held in trust		(9,951)	7,920
Total adjustments		6,975,225	4,062,866
Net cash provided by operating activities	$	4,813,888	2,101,974
Supplemental schedule of noncash transactions:			
Accrued capital asset cost	$	10,870,744	—

See accompanying notes to financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Organization and Operations of the Reporting Entity

The City of Long Beach (the City) is a municipal corporation organized and existing under its Charter and the Constitution and the laws of the State of California. The 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) Basis of Accounting and Measurement Focus

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 City's enterprise and business-type 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 City's business-type activities are charges for sales and services. Operating expenses for enterprise funds and internal service 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.

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

Operating revenues result from exchange transactions associated with the principal activity of the Airport. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as grant funding and investment income, result from nonexchange transactions, in which the Airport gives (receives) value without directly receiving (giving) value in exchange. Additionally, passenger facility charges (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 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement was effective for the Airport's fiscal year ended September 30, 2010 and did not materially impact the Airport.

In December 2009, GASB issued Statement No. 57, *OPEB Measurement by Agent Employers*. The statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. The Airport has chosen to implement the statement early making it effective for the Airport's fiscal year ended September 30, 2010. The statement did not materially impact the Airport.

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The statement is intended to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. Governments that have filed for bankruptcy are required to

(Continued)

disclose information regarding the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services. For governments that are not expected to emerge from bankruptcy as going concerns, this statement requires remeasurement of assets to a value that represents the amount expected to be received. Finally, this statement classifies gains or losses resulting from remeasurement of liabilities and assets as an extraordinary item. Application of this statement was effective for the Airport's fiscal year ended September 30, 2010 and its application did not materially impact the Airport.

The Airport is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB 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 is effective for the Airport's fiscal year ending September 30, 2011.

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

(d) Assets, Liabilities, and Net Assets

1. Use of Estimates

The preparation of 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 cash and cash equivalents as pooled cash and investments, including restricted pooled cash and investments. Investment decisions are made by the City Treasurer and approved by a general investment committee.

Interest income and realized gains and losses arising from such pooled cash and investments are apportioned to each participating unit based on the relationship of an individual unit's respective daily cash balances to aggregate pooled cash and investments. The Airport's share of the City's pooled cash and investments was stated at fair value as of September 30, 2010 and 2009.

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

3. Non-pooled Investments

Non-pooled 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.

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 $5 thousand 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.

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

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

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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 recorded during the period issued and amortized using the effective interest rate 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 and Fund Equity

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.

(2) Pooled Cash and Cash Equivalents and Investments

The Airport's cash and cash equivalents and investments as of September 30, 2010 and 2009 are classified in the accompanying statements of net assets as follows:

		2010	2009
Pooled cash and cash equivalents	$	6,621,135	20,133,325
Pooled cash, and cash equivalents, restricted		22,687,249	9,602,090
Total pooled cash and cash equivalents		29,308,384	29,735,415
Investment nonperforming		50,701	50,701
Restricted cash with fiscal agents		27,328,892	2,247,760
Non-pooled investments		25,235,827	—
Total cash and cash equivalents and investments	$	81,923,804	32,033,876

The majority of the Airport's cash and cash equivalents, including restricted cash, are pooled with the other City's funds and maintained by the City Treasurer. The City requires the Airport to participate in the City Treasurer's pool. As of September 30, 2010 and 2009, the Airport's pooled cash and cash equivalents amounted to $29,308,384 or 1.80% and $29,735,415 or 1.75% of the City's pooled cash and investments, respectively. The City's pooled cash and investments as of September 30, 2010 and 2009 are $1,623,493,000 and $1,696,159,000, respectively. The Airport's $50,701 investment nonperforming remains at 1.28% of $3,962,000, the City's total nonperforming investment short-term. For 2010, the

Airport's total cash and investments with the trustee is $52,564,719 or 16.94% of the City's total cash and investments held by bond trustee of $310,127,000.

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

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

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
Bonds issued by the City	5 years*	30%	None
U.S. Treasury notes, bonds, or bills	5 years*	None	None
Registered state warrants or treasury notes or bonds of the State of California	5 years*	30%	None
Local agency bonds	5 years*	30%	None
Federal agency securities	5 years*	None	None
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 Agreement

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

(c) 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 maturing evenly over time as necessary to provide cash flow and liquidity need for operations. The following schedule indicates the interest rate risk of the City's investments, which includes the amount the Fund has invested with the City as of September 30 (in thousands):

Investment type		2010	2010 Weighted Average Maturity (in years)		2009	2009 Weighted Average Maturity (in years)
Cash and Investments in City Pool:						
Interdepartment Loan (Health SAVRS)	$	2,383	8.604	$	2,654	9.604
U.S. Treasury Notes		333,400	0.514		930,125	0.505
Federal Agency Securities		1,136,279	1.036		592,312	0.500
Money Market Account		137	0.003		—	—
LAIF		50,116	0.003		—	—
Government Managed Rate Account		220	0.003		104,667	0.003
Subtotal City Pool		1,522,535			1,629,758	
Cash and Deposits		113,126			80,099	
Outstanding Checks		(12,168)			(13,698)	
Total City Pool	$	1,623,493		$	1,696,159	
Non Performing Short Term Investment	$	3,962		$	3,962	

Non-pooled investments held by the Airport are comprised of U.S. Treasury Notes with a balance of $25,235,827 and $0 at September 30, 2010 and 2009, respectively. The weighted average maturity (in years) for non-pooled investments held at September 30, 2010 was 0.378.

(d) Investments with Fair Values Highly Sensitive to Investment Risk

The City had no investments with values that were highly sensitive to investment risk as of September 30, 2010 and 2009. Highly sensitive investments are investments whose sensitivity to market interest rate fluctuations are not fully addressed by use of one of the five methods for reporting interest rate risk.

(e) Risks and Uncertainties

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

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

(f) Disclosures Relating to Credit Risk

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

Presented on following table is the minimum rating 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	Minimum legal rating		Rating as of year-end 2010 Not required to be rated	AAA	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	—
Medium-term Notes	A	—	—	—	—
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
Non Performing Short Term Investment	N/A	$ 3,962	—	—	3,962

Non-pooled investments held by the Airport at September 30, 2010 are comprised of U.S. Treasury Notes with a balance of $25,235,827 and a AAA rating.

City's Pooled investments investment type	Minimum legal rating		Not required to be rated	AAA	Unrated
		Rating as of year-end 2009			
Interdepartment Loan (Health SAVRS)	N/A	$ 2,654	2,654	—	—
U.S. Treasury Notes	N/A	930,125	930,125	—	—
Federal Agency Securities	N/A	592,312	—	592,312	—
Medium-term Notes	A	—	—	—	—
LAIF	N/A	—	—	—	—
Government Managed Rate Account	N/A	104,667	104,667	—	—
Subtotal City Pool		1,629,758	1,037,446	592,312	—
Cash and deposits		80,099	—	—	80,099
Outstanding checks		(13,698)	—	—	(13,698)
Total City Pool		$ 1,696,159	1,037,446	592,312	66,401
Non Performing Short Term Investment	N/A	$ 3,962	—	—	3,962

(g) Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represents 5% or more of the City's total pooled investments are as follows (in thousands):

Issuer	Investment type	Reported amount 2010	Reported amount 2009
Federal Farm Credit Bank	Federal agency securities	$ 195,234	20,823
Federal Home Loan Bank	Federal agency securities	329,562	102,848
Federal Home Loan Mortgage Association	Federal agency securities	318,718	91,865
Federal National Mortgage Association	Federal agency securities	292,765	376,776
U.S. Treasury	U.S. Treasury notes and bonds	333,400	930,125

(h) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The

California Government Code requires that a financial institution secure deposits made by state or local 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 except for one City-issued bond and investment in the State's LAIF.

As of September 30, 2010, the City reported deposits of $113,126,000 less $12,168,000 for checks outstanding. As of September 30, 2009, the City's deposits were $80,099,000 less $13,698,000 for checks outstanding.

(i) Investment in State Investment Pool

The City is a voluntary participant in the 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 an one-for-one basis, and structured basis.

(j) Reverse Repurchase Agreements

There were no transactions involving reverse repurchase agreements during the fiscal years ended September 30, 2010 and 2009.

(k) Securities Lending

The City did not engage in any securities lending programs for the fiscal years ended September 30, 2010 and 2009. Accordingly, in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, no assets or liabilities have been recorded in the accompanying financial statements. However, from time to time, the City engages in limited securities lending activities. These activities are governed by formal agreement with the City's contract bank. This agreement limits the nature and amount of the transactions and provides for full collateralization of each transaction.

(3) Capital Assets

Changes in capital assets for fiscal 2010 were as follows:

	2010				
	Beginning balance, October 1	Additions	Deletions/ retirements	Transfers	Ending balance, September 30
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	17,783,441	26,492,059	—	(1,922,611)	42,352,889
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	177,131,913	9,479	(2,191,514)	1,922,611	176,872,489
Total capital assets	194,915,354	26,501,538	(2,191,514)	—	219,225,378
Less accumulated depreciation	(63,330,141)	(6,853,050)	1,051,312	—	(69,131,879)
Capital assets, net	$ 131,585,213	19,648,488	(1,140,202)	—	150,093,499

Changes in capital assets for fiscal 2009 were as follows:

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

(4) Long-Term Debt

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

	Balance, 2009	Additions	Principal payments	Balance, 2010	Due within one year
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	$ 64,493,763	(11,675,693)	75,905,042	$ 17,814,610
Less current portion	(4,920,000)			(17,814,610)	
Total long-term debt, net of current portion	$ 18,166,972			$ 58,090,432	

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

	Balance, 2008	Additions	Principal payments	Balance, 2009	Due within one year
Long-term debt:					
1993 Refunding COP	$ 8,350,000	—	(870,000)	7,480,000	920,000
Commercial paper (CP)	8,032,000	8,300,000	—	16,332,000	4,000,000
Unamortized discount – COP	(127,645)	—	24,124	(103,521)	—
Unamortized deferred loss – COP	(403,912)	—	76,336	(327,576)	—
Unamortized issuance costs – COP	(128,608)	—	24,306	(104,302)	—
Unamortized issuance costs – CP	(206,868)	—	17,239	(189,629)	—
Total long-term debt	15,514,967	$ 8,300,000	(727,995)	23,086,972	$ 4,920,000
Less current portion	(870,000)			(4,920,000)	
Total long-term debt, net of current portion	$ 14,644,967			$ 18,166,972	

Debt service requirements to maturity for the Series 2009 Bonds at September 30, 2010 are summarized as follows:

	Series 2009A Bonds		Series 2009B Bonds		Series 2009C Bonds		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
Fiscal years:							
2011	$ —	459,888	905,000	228,450	—	3,443,675	5,037,013
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 – 2039	9,290,000	2,442,240	2,115,000	149,100	44,890,000	62,822,759	121,709,099
Total	$ 9,795,000	4,261,992	5,900,000	887,550	44,890,000	76,597,459	142,332,001

(a) 1993 Refunding Certificate of Participation

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

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

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

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

On December 9, 2009, the Airport prepaid all of the outstanding 1993 Certificates maturing on June 1, 2016. The net proceeds of the Series 2009B Bonds (see below), together with moneys released from the Airport reserve fund for the 1993 Certificates, were used to pay all principal and interest due on the refunded obligations.

(b) Airport Projects Commercial Paper Notes

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

The note issuances were 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 straight-line method over the life of the program. Annual amortization of issuance costs is $17,239. The Airport has the ability to and continues to extend the notes to periods greater than one year. Amounts the Airport has planned to repay within one year have been classified as short-term obligations. The remaining outstanding amounts have been classified as long-term obligations.

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.

(c) Senior Airport Revenue Bonds

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, capitalized interest 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 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 prorata 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.

(5) Due to City of Long Beach

The City provides services to the Airport under a negotiated Memorandum of Understanding. At September 30, 2010 and 2009, the Airport's unpaid charges totaled $151,390 and $252,020, respectively. For 2010, the amount of $151,390 includes the benefits portion of the accrued 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. For 2009, the amount of $252,020 includes the benefits portion of the accrued wages to be paid to the employee benefits fund of $124,520 and $127,500 for the underground storage tank consent decree penalty and legal fees allocation per agreement with the State Water Resources Control Board.

(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. Per FAA guidelines, the Airport must submit an application requesting "use" authority within three years of obtaining "collection" approval.

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 2010 and 2009 was $6,253,610 and $6,005,439, respectively. Interest earned on these funds for 2010 and 2009 amounted to $77,701 and $93,876, respectively.

(Continued)

(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 30th fiscal year-end.

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

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 2010 and 2009, the Airport's contribution of 100% of their share in pension cost is $907,808 and $850,900, respectively. CalPERS does not calculate a separate pension obligation at the Airport level; accordingly, no separate Airport obligation can be presented herein.

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

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

(8) Postretirement 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 $25,000 for employees, based on age, who retired during calendar year 1996, and the second incentive offered a 16-hour increase in sick leave per year of service to management employees who retired by June 30, 2004. In all cases, once the cash value of the retired employee's unused sick leave is exhausted, the retiree can terminate coverage or elect to continue paying the premiums at the retiree's expense.

At September 30, 2010, there were 561 participants in the City's Retired Employees Health Insurance Program, and the non-interest-bearing cash value equivalent of the remaining unused sick leave for the current retirees totaled $19,502,000. Total premiums and actual claims paid by the City under the Retired Employees Health Insurance Program for the fiscal year ended September 30, 2010 were $7,805,000, and are included in the expenses of the Employee Benefits Internal Service Fund.

(b) Termination Benefits

As of September 30, 2010, the City has recorded a liability in the Employee Benefits Internal Service Fund of $101,923,000 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 $6,760,000 has been fully funded and the long-term portion of the liability of $95,163,000 is being funded, over time, through burden rates charged to the various City funds, applied as a percentage of current productive salaries.

(c) Other Postemployment Benefits

As of September 30, 2010, the City has also recorded a liability in the Employee Benefits Internal Service Fund of $18,022,000 based on an actuarial study of the "implicit subsidy" as defined by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (GASB 45). While the City does not directly contribute any funding 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 health care 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.

This plan does not issue a separate financial report.

(Continued)

(d) Funding Policy

The contribution requirements 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, 2010, 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	$	11,734
Interest on net OPEB obligation		520
Adjustment to annual required contribution		(782)
Annual OPEB cost (expense)		11,472
Contribution made		(3,854)
Increase in net OPEB obligation		7,618
Net OPEB obligation – beginning of year		10,404
Net OPEB obligation – end of year	$	18,022

The ARC was determined as part of the September 2008 actuarial valuation. For the year ended September 30, 2010, the City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

Fiscal year ended		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
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

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, 2010 was as follows (in thousands):

Actuarial accrued liability (AAL)	$	120,714
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	120,714
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll	$	321,931
UAAL as a percentage of covered payroll		37.5%
ARC as a percentage of covered payroll		3.6

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. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(g) Actuarial Methods and Assumption

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

The September 30, 2010 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%. 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 facility leased or services performed, and include fixed minimum payments, a combination of fixed minimum payments and percentages of gross revenues over a base, or percentage of gross revenues.

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

		Amount
Year(s):		
2011	$	7,415,058
2012		6,118,510
2013		5,070,734
2014		4,362,217
2015		4,286,579
2016 – 2020		19,911,309
2021 – 2025		17,959,695
2026 – 2030		16,871,322
2031 – 2035		14,898,297
2036 – 2040		13,307,183
2041 – 2045		11,045,966
2046 – 2050		10,892,298
2051 – 2055		5,939,865
2056 – 2060		4,668,072
2061 – 2065		4,668,072
2066 – 2070		4,668,072
2071 – 2075		4,668,072
2076 – 2080		4,668,072
2081 – 2085		3,541,511
	$	164,960,904

(10) Commitments and Contingencies

(a) Litigation

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

(b) Insurance

The Airport carries liability insurance separate from the City in the amount of $100 million per occurrence covering general products, aircraft liability, and passengers. The policy also includes $50 million limit per occurrence for the perils of war, hijackings, sabotage, and terrorism. The Airport is included in the City's self-insurance program for workers' compensation claims. Workers' compensation insurance is discussed in detail in the City's CAFR. The Airport paid $72,750 and $124,295 in liability insurance premiums for fiscal years 2010 and 2009, respectively.

(c) Construction Contracts

The Airport has a variety of agreements with private parties relating to the construction, improvement, or modification of its airport facilities. The financing of such construction contracts is being provided from the Airport's PFCs, FAA grants, Airport capital, and commercial paper. The Airport committed to approximately $23,353,095 and $3,608,861 in open construction contracts as of September 30, 2010 and 2009, respectively. At the end of fiscal year 2010, the Airport has active construction projects. The projects include the Airport parking structure, terminal development, and air carrier ramp reconstruction.

(11) Pollution Remediation Obligation

In September 2009, the Regional Water Quality 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 original estimated liability was $150,000. As of September 30, 2010, the remaining liability was $114,352. 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 clean-up activities. There is no reasonable expectation of any recovery associated with these potential remediation efforts.

(12) Subsequent Event

(a) City of Long Beach Senior Airport Revenue Bonds, Series 2010A

In November 2010, the City issued $48,435,000 of Senior Airport Revenue Bonds, Series 2010A. The proceeds of the Series 2010A bonds are primarily funding a portion of the costs of a new passenger concourse at the Airport. The project will include the construction of permanent facilities for passenger hold rooms, restrooms, concessions, and the consolidation of passenger security screening in one central location. It will also fund the payment of interest due and payable on the Series 2010A Bonds, repay the Commercial Paper Series B, pay for the Series 2010A costs of issuance, and fund the Series 2010 Reserve Account of the Senior Reserve Fund. Debt service on the Series 2010A bonds will be paid through revenues generated by the Airport, passenger facilities charges, and the capitalized interest account.

(Continued)

(b) City of Long Beach Senior Airport Revenue Bonds, Series 2010B

In November 2010, the City issued $12,965,000 of Senior Airport Revenue Bonds, Series 2010B. The proceeds of the Series 2010B bonds are primarily funding the refund of Series A Subordinate Airport Commercial Paper Notes. It will also pay for Series 2010B costs of issuance and fund the deposit to the Senior Reserve Fund. Debt service on the Series 2010B bonds will be paid through revenues generated by the Airport and passenger facilities charges.

SUPPLEMENTAL INFORMATION

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Supplementary Schedule – Rate Covenants

September 30, 2010 and 2009

(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, 2010 and 2009, respectively, has been calculated as follows:

		2010	2009
Revenues:			
Land and building rentals	$	9,218,191	7,851,198
Parking fees		8,205,639	8,778,840
Airport concessions		4,547,941	4,158,955
Landing, gate, and ramp fees		6,456,191	6,052,865
Other fees and charges		2,604,909	2,425,211
Other income (expense), net		588,481	(268,232)
Interest income		293,488	464,658
Total revenues		31,914,840	29,463,495
Expenses:			
Personnel services		9,244,541	8,214,510
Operations and maintenance		8,632,441	9,114,687
City services		7,378,137	6,979,004
General and administrative		938,341	1,074,620
Total expenses		26,193,460	25,382,821
Net revenues		5,721,380	4,080,674
Rate reserve amount at beginning of year		291,027	322,636
Amount available for debt service		6,012,407	4,403,310

CITY OF LONG BEACH AIRPORT ENTERPRISE FUND

Supplementary Schedule – Rate Covenants

September 30, 2010 and 2009

(Unaudited)

		2010	2009
Amount required to be available for debt service per rate covenant:			
1993 Certificates of Participation	$	187,000	1,290,545
2009 A bonds		221,001	—
2009 B bonds		977,109	—
2009 C bonds		—	—
Total debt service for fiscal year		1,385,110	1,290,545
Rate covenant percentage		125%	125%
Amount required to be available for debt service per rate covenant		1,731,388	1,613,181
Excess of amount required to be available for debt service per rate covenant	$	4,281,019	2,790,129

See accompanying independent auditors' report.