BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Basic Financial Statements

June 30, 2012 and 2011

(With Independent Auditor's Report Thereon)

MGO Certified Public Accountants.

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June 30, 2012 and 2011

Table of Contents

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MGO Certified Public Accountants.

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Independent Auditor's Report

The Honorable Board of Commissioners
Burbank-Glendale-Pasadena Airport Authority
Burbank, California:

We have audited the accompanying basic financial statements of the Burbank-Glendale-Pasadena Airport Authority (the Authority) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority'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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made my management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and 2011 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012 on our consideration of the Authority'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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Macias Gini & O'Connell LLP

Los Angeles, California
November 27, 2012

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MANAGEMENT’S DISCUSSION AND ANALYSIS

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Management of the Burbank-Glendale-Pasadena Airport Authority (Authority), which operates Bob Hope Airport (Airport), offers readers of the Authority's basic financial statements the following *Management's Discussion and Analysis* (MD&A), a narrative overview and analysis of the Authority's financial activities as of and for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider this information in conjunction with the accompanying basic financial statements.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements include the statements of net assets, the statements of revenues, expenses, and changes in net assets, the statements of cash flows, and the notes to the basic financial statements.

The statements of net assets present information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statements of revenues, expenses, and changes in net assets present information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statements of cash flows present information on the Authority's cash receipts and payments during the fiscal year. These cash flows are grouped into four categories: operating activities, noncapital financing activities, capital and related financing activities, and investing activities.

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Highlights of Airport Activities

- The assets of the Authority exceeded its liabilities (*net assets*) at June 30, 2012 and 2011 by $456,889,235 and $449,176,057, respectively. Of this amount, $126,582,040 and $122,694,054, respectively, may be used to meet the Authority's ongoing obligations to Airport users and creditors (*unrestricted net assets*).
- The Authority's total net assets increased by $7,713,178 and $3,827,124 in the fiscal years ended June 30, 2012 and 2011, respectively.
- The Authority's net capital assets increased by $2,041,643 in fiscal year (FY) 2012, consisting of additions of $16,265,138, deletions of $0 (net of accumulated depreciation of $4,584,890) and depreciation expense of $14,223,495. The Authority's net capital assets increased by $7,434,376 in FY 2011, consisting of additions of $22,126,685, deletions of $2,606 (net of accumulated depreciation of $1,041,044) and depreciation expense of $14,689,703.
- Operational Results:
  - In FY 2012 total passengers of 4,206,023 declined from FY 2011 by 3.5%, and in FY 2011 total passengers of 4,359,928 declined from FY 2010 by 3.4%. The decrease in passenger traffic levels reflects the continuing impact of the sluggish national economy and the airline industry's capacity reductions relative to the reduced demand for air travel. The Airport remained focused on

maintaining efficient passenger operations, matching the timing of capital programs to alternate funding sources, upgrading infrastructure, and implementing security requirements.

– Total operating revenues generated during FY 2012 decreased by $1,910,575, or 4.2%, from FY 2011. Total operating revenues generated during FY 2011 decreased by $1,012,406, or 2.2%, from FY 2010.

– Total operating expenses incurred during FY 2012 increased by $767,010, or 1.5%, over FY 2011 (increase of $1,233,218 or 3.5% excluding depreciation expense). Total operating expenses in FY 2011 increased by $429,877, or 0.9%, over FY 2010 (increase of $1,420,050 or 4.2% excluding depreciation expense).

– The Airport was served during FY 2012 and FY 2011 by six signatory carriers: Alaska Airlines, American Airlines, U.S. Airways, JetBlue Airways, SkyWest Airlines (which operates Delta Connection and United Express) and Southwest Airlines. American Airlines discontinued service effective February 9, 2012.

– The Airport's ability to maintain its passenger traffic levels and/or attain any future passenger development is contingent on the recovery of the national economy and decisions by airline management to provide air service at Bob Hope Airport to meet customer demand. Airport management cannot predict the decisions of airline management or the future course of the aviation industry. The airline industry is highly cyclical and is characterized by intense competition, high operating and capital costs, and varying demand. Passenger and cargo volumes are highly sensitive to general and localized economic trends, and passenger traffic may vary substantially with seasonal travel patterns. The profitability of the airline industry can fluctuate dramatically even in the absence of catastrophic events. Due to impacts on airlines of varying demand as a result of the continuing sluggish national economy and volatile fuel costs, passenger levels in the quarters ended September 30, 2011, December 31, 2011, March 31, 2012 and June 30, 2012 declined 1.7%, 3.5%, 3.4% and 5.7%, respectively, from the same periods in FY 2011. The impact of the national economy on the airline industry and passenger activity is expected to continue in FY 2013.

– During FY 2012, the Airport continued its residential sound insulation program and acoustically treated approximately 263 residences and an additional 99 are in progress at June 30, 2012. During FY 2011, the Airport acoustically treated approximately 207 residences and an additional 203 were in progress at June 30, 2011. The funding for this program, in which noise mitigation features are installed in residences impacted by airport noise, is provided by federal grants, passenger facility charge fees, and Authority funds. As part of its ongoing noise mitigation program, the Authority received Federal Aviation Administration (FAA) grant awards of $7 million in August 2007, $3 million in June 2008, and an additional $7 million was awarded in February 2009.

- **Development Agreement.** The Authority and the City of Burbank have entered into a multiyear agreement (the Development Agreement) clarifying permitted development and uses within the Airport Zone, as defined by the City of Burbank Municipal Code, on the Airport property for the term of the agreement and determining the uses and/or disposition of certain land during the term of the Development Agreement.

Based on a recommendation of the Airport Land Use Working Group, the Authority and the City agreed to an extension of the Development Agreement to March 15, 2015, and revised the agreement to permit seeking public input on the future vision of the airport, which may include a new or relocated passenger terminal. This Development Agreement amendment was approved by the Authority via Resolution No. 443 adopted on August 1, 2011, and approved by the City via Ordinance No. 3819 adopted on September 13, 2011.

- **Special Item – Environmental Litigation and Settlement.** In July 2010, the Authority was formally named by the U.S. Environmental Protection Agency (EPA) as one of approximately 30 parties designated under the federal Superfund law (CERCLA) as "potentially responsible parties" (PRPs) for the second interim remedy at the North Hollywood Operable Unit (NHOU), which was preliminarily estimated by EPA to cost approximately $108 million. The EPA requested that the Authority, together with other named PRPs, form a group and submit a good faith settlement offer to EPA to undertake the work required for the second interim remedy, and demanded payment of certain of its past costs incurred in the NHOU and a portion of the collective San Fernando Valley Superfund Sites that the EPA calculated to be approximately $13 million.

  Separately, the Authority filed a lawsuit, *Burbank-Glendale-Pasadena Airport Authority v. Lockheed Martin Corporation*, No. CV 10-2392 MRP (ANx) in the United States District Court for the Central District of California (Indemnification Action). That lawsuit claimed that Lockheed Martin Corporation owes the Authority a contractual duty to defend and indemnify against the EPA's current claims. The Authority based its claims principally upon a written indemnification provision in the 1978 Airport Purchase Agreement executed by it and by Lockheed. Lockheed answered the complaint, denying the material allegations thereof and asserting various affirmative defenses.

  The Authority subsequently settled its lawsuit with Lockheed Martin Corporation by written agreement on February 22, 2011. The written settlement agreement provided that the Authority pay to Lockheed Martin Corporation the sum of $2,000,000 over two years, with the second installment due in January 2012. In exchange, Lockheed Martin Corporation agreed to defend and indemnify the Authority for certain settled matters, including all response costs in connection with the second interim remedy for the NHOU asserted by EPA or by any other PRP against either or both Lockheed Martin Corporation and the Authority.

  Included in the Special Item for the years ended June 30, 2012 and 2011 are the costs of the settlement totaling $0 and $2 million and legal costs related to the EPA and Lockheed matters totaling $797 and $878,795, respectively. Legal costs related to the EPA and Lockheed matters for the year ended June 30, 2010 totaled $514,854 and were included in Professional Services for the year then ended.

  Effective February 1, 2011, the Authority implemented a rate increase of $1 per day to all parking charges, the proceeds of which are to be used to fund the EPA and Lockheed legal and settlement costs, including those costs incurred in FY 2010. Incremental parking revenues totaling $1,248,545 and $528,383 for the years ended June 30, 2012, and 2011, respectively, net of the related 12% City of Burbank parking tax on such incremental parking revenues totaling $149,825 and $63,406, respectively, are not included in parking revenues but, rather, are included as an offset to the legal and settlement costs noted above.

- **Regional Intermodal Transportation Center**. The Regional Intermodal Transportation Center (RITC) project will include a transportation center linking the Airport with the Metrolink/Amtrak Bob Hope Airport train station immediately south of the Airport, local and regional bus service, and other mass transit transportation in the Authority's continuing efforts to promote alternative access to the Airport. The RITC will also include a consolidated rental car facility (CRCF) and a replacement parking structure for those parking spaces displaced by the transportation center and CRCF. The RITC project will also include an elevated covered moving sidewalk between the RITC and the terminal, the installation by the City of Burbank's Burbank Water and Power Department of solar power panels on the roof of the RITC and a publicly accessible consolidated natural gas (CNG) fueling facility to be developed and operated under a ground development lease.

On May 14, 2012, the Authority awarded construction contracts and issued notices to proceed for construction of the RITC. Costs of Phase 1 of the RITC project, estimated at $112.6 million, are to be funded from 2012 Revenue Bonds issued May 10, 2012 and Customer Facility Charges (CFCs) through the construction period ($81.6 million), Passenger Facility Charges ($16.2 million), federal grants ($1.5 million) and Authority investment from the Facility Development Fund ($10.1 million) and a loan from the Authority to the rental car companies for contingency, if used ($3.2 million). The replacement parking structure is expected to be completed in August 2013 and the balance of the RITC project is expected to be completed in September 2014.

- **2012 Airport Revenue Bonds.** On May 10, 2012, the Authority issued $82,165,000 of 2012 Airport Revenue Bonds (2012 Bonds) with an effective interest rate of 5.624% and at an original issue premium of $187,886. The 2012 Revenue Bonds, issued as parity bonds with the 2005 Airport Revenue Bonds (2005 Bonds), were issued in two series. The 2012 Bonds are special obligations of the Authority payable solely from, and secured by a pledge of, the net revenues and amounts in certain funds established under the Master Indenture of Trust and the 2012 Debt Service Reserve Fund. The 2012 Bonds were issued (i) to finance those costs of the RITC project consisting of the CRCF and the portion of the costs of the Replacement Parking Structure attributable to the parking spaces displaced by the CRCF (2012 Bond Project); (ii) to fund the 2012 Debt Service Reserve Fund; (iii) to provide capitalized interest with respect to the 2012 Bonds through July 1, 2014; and to pay the costs of issuance of the 2012 Bonds. Debt service on the 2012 Bonds is expected to be repaid through Customer Facility Charges (CFCs) and residual rents from rental car companies using the CRCF.

Schedule of Net Assets

A summary of the Airport's net assets as of June 30, 2012, 2011 and 2010 is shown below:

Schedule of Net Assets

				FY 2011/12 increase (decrease)		FY 2010/11 increase (decrease)	
	2012	**2011**	**2010**	**Amount**	**%**	**Amount**	**%**
Assets:							
Current unrestricted assets	$ 31,991,125	31,337,049	30,983,974	654,076	2.1%	$ 353,075	1.1%
Restricted assets	190,513,756	110,076,099	109,055,103	80,437,657	73.1	1,020,996	0.9
Facility Development Reserve	105,000,000	100,000,000	106,000,000	5,000,000	5.0	(6,000,000)	(5.7)
Bond issuance costs	2,331,862	737,164	796,698	1,594,698	216.3	(59,534)	(7.5)
Capital assets, net	279,826,073	277,784,430	270,350,054	2,041,643	0.7	7,434,376	2.7
Total assets	609,662,816	519,934,742	517,185,829	89,728,074	17.3	2,748,913	0.5
Liabilities:							
Current liabilities	13,018,093	11,120,280	9,464,548	1,897,813	17.1	1,655,732	17.5
Liabilities payable from restricted assets	4,699,532	4,030,219	3,974,930	669,313	16.6	55,289	1.4
Noncurrent liabilities	135,055,956	55,608,186	58,397,418	79,447,770	142.9	(2,789,232)	(4.8)
Total liabilities	152,773,581	70,758,685	71,836,896	82,014,896	115.9	(1,078,211)	(1.5)
Net assets:							
Invested in capital assets, net of related debt	220,535,719	225,693,846	215,639,772	(5,158,127)	(2.3)	10,054,074	4.7
Restricted, debt service	11,422,569	11,736,865	11,243,481	(314,296)	(2.7)	493,384	4.4
Restricted, capital projects	98,348,907	89,051,292	88,337,093	9,297,615	10.4	714,199	0.8
Unrestricted	126,582,040	122,694,054	130,128,587	3,887,986	3.2	(7,434,533)	(5.7)
Total net assets	$ 456,889,235	449,176,057	445,348,933	7,713,178	1.7	$ 3,827,124	0.9

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. The Authority's assets exceeded its liabilities (net assets) by $456,889,235, $449,176,057, and $445,348,933 at the close of FY 2012, FY 2011, and FY 2010, respectively.

The largest portion of the Authority's net assets (48.3%, 50.2% and 48.4% at June 30, 2012, 2011 and 2010, respectively) reflects its investment in capital assets (e.g., land, buildings, runways, and the like); less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to Airport users; consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The second largest portion of the Authority's net assets (24.0%, 22.4% and 22.4% at June 30, 2012, 2011 and 2010, respectively) represents resources that are subject to external restrictions on how they may be used. Of these restricted net assets, 10.4%, 11.6% and 11.3% are for repayment of long-term debt and 89.6%, 88.4% and 88.7% are for construction of capital assets at June 30, 2012, 2011 and 2010, respectively.

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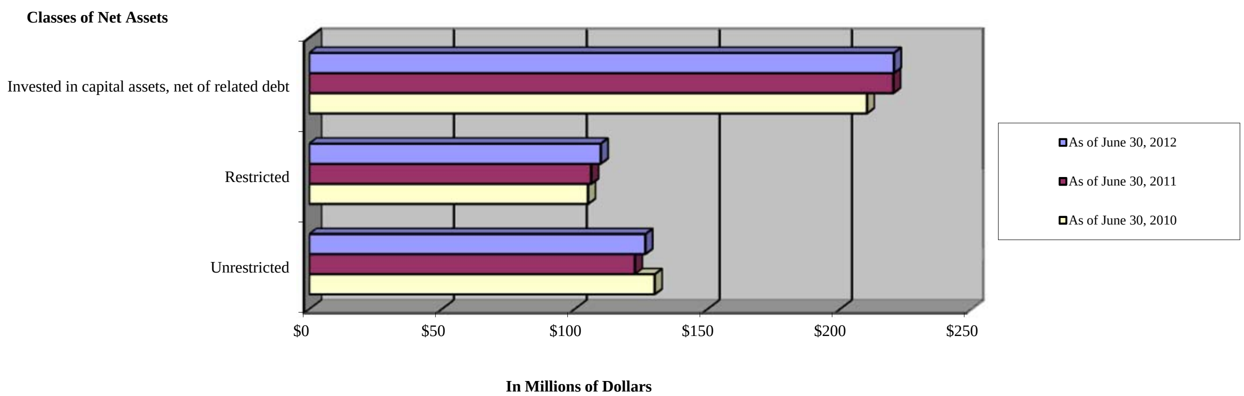
The final portion of net assets is unrestricted net assets and may be used to meet the Authority's ongoing obligations to Airport users and creditors. Included in unrestricted net assets at June 30, 2012, 2011 and 2010 is net assets committed by Authority Resolution for engine repowerment of shuttle buses of $541,043, $541,043 and $700,000, respectively.

Net Assets as of June 30, 2012, 2011 and 2010



As of June 30, 2012, the Authority is able to report positive balances in all three categories of net assets. The same situation held true as of June 30, 2011 and 2010.

Current Unrestricted Assets

The Authority's current unrestricted assets increased by $654,076, or 2.1%, in FY 2012 primarily resulting from net operating revenues and increased grant receivables from accrued qualifying grant expenditures, offset by decreases in accounts receivable and accrued interest receivable. $5,000,000 (net) was transferred during FY 2012 from the Current Operating Fund to the Facility Development Reserve, including $4,928,138 transferred from the Facility Development Reserve for interim financing on the RITC project, offset by $9,928,138 transferred to the Facility Development Reserve upon issuance of the 2012 Bonds and first draw from the 2012 Bonds Construction Funds for reimbursement of qualifying expenditures on the RITC project. The Authority's current unrestricted assets increased by $353,075, or 1.1%, in FY 2011 primarily resulting from net operating revenues, offset by decreased interest receivables and decreased grant receivables from accrued qualifying grant expenditures. $6,000,000 was transferred during FY 2011 from the Facility Development Reserve to the Current Operating Fund to provide interim financing for the Regional Intermodal Transportation Center (RITC) project.

Restricted Assets

The Authority's restricted assets increased by $80,437,657, or 73.1%, in FY 2012. The increase in restricted assets includes an increase of $70,817,539 related to the issuance of the 2012 Bonds, an increase of $56,219 related to the 2005 Airport Revenue Bonds (2005 Bonds), an increase of $172,953 in the Operating Reserve Fund, an increase of $83,928 in the Authority Areas Reserve, a decrease of $145,808 in the Asset Forfeiture

Fund, an increase of $4,430,972 in the Passenger Facility Charge (PFC) Fund, an increase of $5,006,016 in the Customer Facility Charge (CFC) Fund, a decrease of $121,751 in PFC receivables, an increase of $154,042 in CFC receivables, and a decrease of $16,453 in accrued interest related to other restricted cash and investment funds.

The increase in the fund related to issuance of the 2012 Bonds includes $9,277,903 of capitalized interest in the 2012 Bonds Debt Service Fund, $5,838,593 in the 2012 Bonds Debt Service Reserve Fund, $47,830 in the 2012 Bonds Cost of Issuance Fund (net of $709,161 paid to vendors for costs of issuance) and $55,653,213 in 2012 Bonds Construction Fund (net of $9,928,138 drawn for reimbursement of qualifying expenditures on the RITC project). Debt Service and Debt Service Reserve funds relate to debt service requirements and accumulated interest earnings of the 2005 Bonds and the 2012 Bonds. The Operating Reserve Fund, a fund required by the Bond Indenture in an amount equal to the one fourth of the operations and maintenance budget, increased $172,953 and $365,785 based on a corresponding increase in that budget for FY 2012 and FY 2011, respectively. The PFC is an FAA-approved charge levied on each enplaned passenger (currently $4.50). PFC funds collected are restricted and may only be used on specifically approved facility improvement projects. The balance in the PFC Fund is dependent on the timing of receipts and expenditures on approved projects. PFC revenue for fiscal years ended June 30, 2012, 2011 and 2010 totaled $8,989,090, $9,642,916 and $10,291,366, respectively, including interest and changes in fair value in the PFC Fund of $286,374, $404,103 and $649,043, respectively. During the fiscal years ended June 30, 2012 and 2011, funds totaling $4,705,725 and $12,305,329, respectively, for eligible costs expended on PFC projects were reimbursed to the Current Operating Fund from the PFC Fund. Of these amounts, $1,335,449 and $2,946,776, respectively, were for sound insulation program expenses and $3,370,276 and $9,358,553, respectively, were for facility improvement project expenses.

The CFC is a State of California permitted charge established by the Authority effective December 1, 2009, levied on rental car customers. The fee was $10 per rental car transaction through June 30, 2011. In accordance with State law, effective July 1, 2011 the Authority increased the CFC fee to $6 per rental car transaction day, up to a maximum of five rental days. CFC funds collected are restricted and may only be used for the planning, design, construction and financing of a consolidated rental car facility (CRCF). The balance in the CFC Fund is dependent on the timing of receipts and expenditures on the CRCF. CFC revenue for fiscal years ended June 30, 2012 and 2011 totaled $5,154,028 and $3,186,870, respectively, and funds totaling $1,105,186 for eligible CRCF costs were reimbursed to the Current Operating Fund from the CFC Fund in FY 2010.

The Authority's restricted assets increased by $1,020,996, or 0.9%, in FY 2011. The increase in restricted assets includes an increase of $9,535 in the Debt Service Fund and Debt Service Reserve Fund related to the 2005 Bonds, an increase of $365,785 in the Operating Reserve Fund, an increase of $83,928 in the Authority Areas Reserve, a decrease of $7,150 in the Asset Forfeiture Fund, a decrease of $2,125,818 in the Passenger Facility Charge (PFC) Fund, an increase of $3,248,030 in the Customer Facility Charge (CFC) Fund, a decrease of $493,115 in PFC receivables, a decrease of $63,880 in CFC receivables, and an increase of $3,681 in accrued interest related to other restricted cash and investment funds.

Facility Development Reserve

Cash and investments – Facility Development Reserve increased $5,000,000, or 5.0%, in FY 2012 and decreased $6,000,000, or 5.7%, in FY 2011. This fund was established by the Authority during fiscal year 2000 to provide for the development of the terminal and other Airport facilities. The actual appropriation of these funds to

 (Continued)

selected facility development projects will be determined based on the approval of the Authority. In FY 2012, $4,928,138 was transferred from the Facility Development Reserve to the current operating fund to provide interim financing on the RITC project, offset by $9,928,138 transferred from the current operating fund to the Facility Development Reserve upon issuance of the 2012 Bonds and first draw from the 2012 Bonds Construction Funds for reimbursement of qualifying expenditures on the RITC project. In FY 2011, $6,000,000 was transferred from the Facility Development Reserve to the current operating fund to provide interim financing for the RITC project.

Capital Assets

The Authority's net capital assets increased $2,041,643, or 0.7%, in FY 2012 and increased $7,434,376, or 2.7%, in FY 2011.

The net increase in capital assets of $2,041,643 in FY 2012 includes additions of $16,265,138, deletions of $0 (net of accumulated amortization of $4,584,890) and depreciation expense of $14,223,495. The net increase in capital assets of $7,434,376 in FY 2011 includes additions of $22,126,685, deletions of $2,606 (net of accumulated amortization of $1,041,044) and depreciation expense of $14,689,703.

FY 2012 additions to capital assets of $16,265,138 include land for runway safety area clearance, Ramps A and B paving, Runway 15 runway safety area improvements, Airport roadway and perimeter security infrastructure improvements, aircraft rescue and firefighting (ARFF) truck, and additions to construction in progress on the RITC, digital video surveillance system (DVSS) Phase IV and common use passenger processing system (CUPPS) projects. FY 2012 deletions include depreciation of $14,223,495 and other deletions of $0 (net of accumulated depreciation of $4,584,890) including prior runway, ramp and apron paving, 1991 ARFF truck, and landscaping and paving improvements in Parking Lot D and the valet parking lot as part of the RITC construction project.

FY 2011 additions to capital assets of $22,126,685 include runway shoulder rehabilitation, extension of the Taxiway D blast fence, repaving of certain general aviation aircraft ramps, landside water line replacement, Terminal B carpet replacement, CNG engine retrofit on one shuttle bus, and additions to construction in progress on the RITC, Aircraft Ramps A and B rehabilitation and CUPPS projects. FY 2011 deletions include depreciation of $14,689,703 and other deletions of $2,606 (net of accumulated depreciation of $1,041,044) including taxilane centerline and guard lighting, prior Aircraft Ramps A and B paving, and prior taxilane and other airfield paving.

Current Liabilities

Current liabilities increased $1,897,813, or 17.1%, in FY 2012. The increase results from an increase in vendor accruals primarily related to capital projects of $3,459,421, including the RITC project of $1,978,095 with the start-up of construction and the DVSS Phase IV project of $1,156,926, offset by a decrease of the Special Item of $1,000,274 with payment of the second installment of the settlement, a decrease in the liability for hangar floor repairs of $1,236,497, an increase in salaries and benefits payable of $45,837, an increase in unearned revenue of $133,705 and an increase in customer deposits of $37,841.

Current liabilities increased $1,655,732, or 17.5%, in FY 2011. The increase results from increase in vendor accruals primarily related to various capital projects of $381,811 and the Special Item of $1,078,850, an increase in salaries and benefits payable of $59,332, and an increase in unearned revenue of $155,291, offset by a decrease in customer deposits of $19,552.

Liabilities Payable from Restricted Assets

Liabilities payable from restricted assets increased by $669,313, or 16.6%, in FY 2012 and $55,289, or 1.4%, in FY 2011. The increase in FY 2012 reflects a net increase of $115,000 in the current portion of 2005 Bonds payable, a decrease of $59,400 of 2005 Bonds interest payable and an increase of $613,713 of 2012 Bonds interest payable. FY 2011 reflects a net increase of $110,000 in the current portion of long-term debt related to the 2005 Bonds, offset by a decrease of $54,711 in interest payable on the 2005 Bonds.

Noncurrent Liabilities

Noncurrent liabilities increased by $79,447,770, or 142.9%, in FY 2012 and decreased by $2,789,232, or 4.8%, in FY 2011. The increase in FY 2012 reflects the issuance of 2012 Bonds on May 10, 2012 in the amount of $82,165,000 at an original issue premium of $187,002 (net of amortization of $884), less the reclassification of the current portion of the 2005 Bonds of $2,755,000 and less annual amortization of original issue premium on the 2005 Bonds of $149,232. The decrease in FY 2011 represents the reclassification of the current portion of the 2005 Bonds of $2,640,000 and the annual amortization of original issue premium on the 2005 Bonds of $149,232.

Schedule of Revenues, Expenses, and Changes in Net Assets

The following table illustrates a condensed summary of the changes in net assets for the fiscal years ended June 30, 2012, 2011 and 2010:

Schedule of Revenues, Expenses, and Changes in Net Assets

				FY 2011/12 increase (decrease)		FY 2010/11 increase (decrease)	
	FY 2012	**FY 2011**	**FY 2010**	**Amount**	**%**	**Amount**	**%**
Operating revenues	$ 43,454,436	45,365,011	46,377,417	(1,910,575)	(4.2)%	$ (1,012,406)	(2.2)%
Operating expenses	50,540,163	49,773,153	49,343,276	767,010	1.5	429,877	0.9
Operating loss	(7,085,727)	(4,408,142)	(2,965,859)	(2,677,585)	60.7	(1,442,283)	48.6
Nonoperating revenues, net	10,939,347	9,928,405	10,588,549	1,010,942	10.2	(660,144)	(6.2)
Income before contributions and special item	3,853,620	5,520,263	7,622,690	(1,666,643)	(30.2)	(2,102,427)	(27.6)
Capital contributions	2,611,810	657,273	5,445,828	1,954,537	297.4	(4,788,555)	(87.9)
Special item	1,247,748	(2,350,412)	—	3,598,160	(153.1)	(2,350,412)	N/A
Changes in net assets	7,713,178	3,827,124	13,068,518	3,886,054	101.5	(9,241,394)	(70.7)
Total net assets – beginning of year	449,176,057	445,348,933	432,280,415	3,827,124	0.9	13,068,518	3.0
Total net assets – end of year	$ 456,889,235	449,176,057	445,348,933	7,713,178	1.7	$ 3,827,124	0.9

Traffic Activities

Commercial aircraft operations (takeoffs and landings) and landed weight reflect decreases during FY 2012 of 5.6% and 1.2%, respectively. Cargo tonnage, transported primarily by Federal Express and United Parcel Service, increased 9.2% in FY 2012. Aircraft operations (takeoffs and landings) and landing weight decreased 10.1% and 6.1%, respectively, during FY 2011. Cargo tonnage increased 1.6% in FY 2011.

Total passenger levels decreased by 3.5% and 3.4% in FY 2012 and FY 2011, respectively. The state of the national economy, the impact of rapidly increasing fuel costs and potential restructuring of the airline industry could materially affect passenger traffic levels at the Airport.

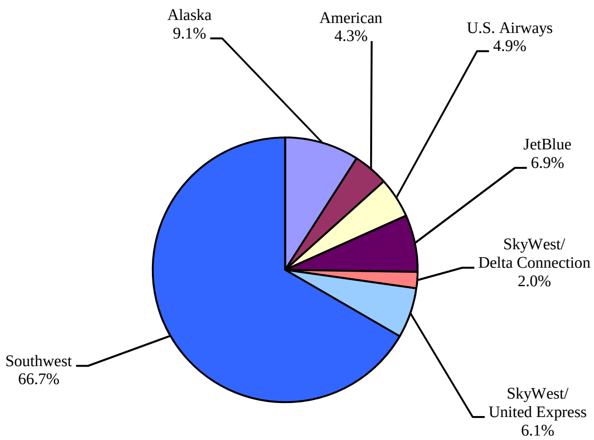
Illustrated below are comparative traffic activities for FY 2012, FY 2011 and FY 2010:

Comparative Traffic Activities

				% increase (decrease)	
Description	**FY 2012**	**FY 2011**	**FY 2010**	**FY 2011/12**	**FY 2010/11**
Commercial carrier flight operations (takeoffs and landings)	54,110	57,306	63,730	(5.6)%	(10.1)%
Landing weight (in pounds)	3,239,082,178	3,279,571,614	3,493,028,279	(1.2)	(6.1)
Total enplaned and deplaned passengers	4,206,023	4,359,928	4,515,713	(3.5)	(3.4)
Cargo tonnage (in tons)	51,989	47,598	46,863	9.2	1.6

Illustrated below is the passenger traffic share by airline for fiscal years ended June 30, 2012 and 2011:

Total Passengers by Air Carrier – *FY 2012*



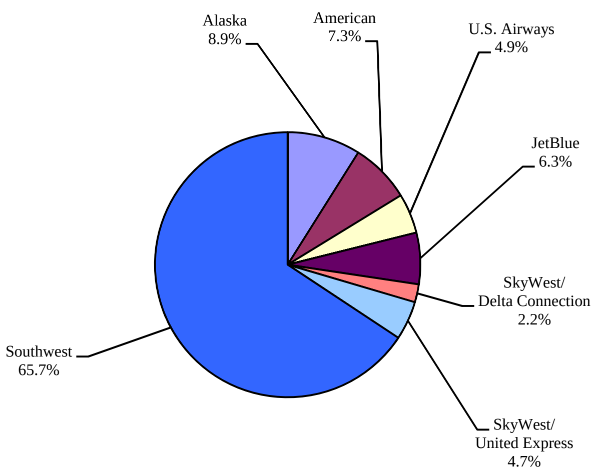
Air Carrier	*Number of Passengers*
Alaska Airlines	381,092
American Airlines	180,786
JetBlue Airways	291,946
SkyWest Airlines:	
Delta Connection	83,895
United Express	257,869
Southwest Airlines	2,802,487
U.S. Airways	207,948
Total Passengers	4,206,023

***** Note:***

Delta Air Lines service is provided by Delta Connection and United Airlines service is provided by United Express, both operated by SkyWest Airlines.

American Airlines discontinued service effective February 9, 2012

Total Passengers by Air Carrier – *FY 2011*

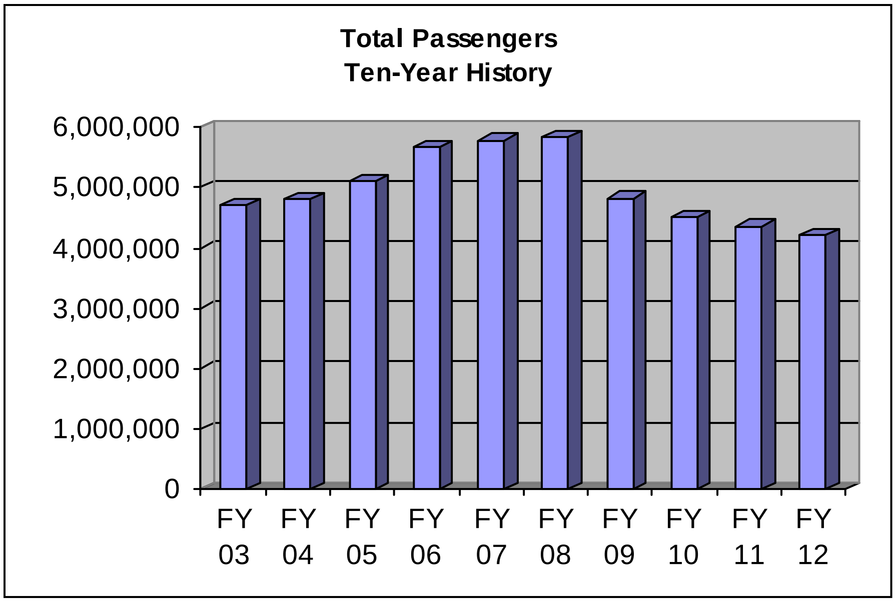


Air Carrier	*Number of Passengers*
Alaska Airlines	389,363
American Airlines	318,594
JetBlue Airways	273,104
SkyWest Airlines:	
Delta Connection	95,799
United Express	206,500
Southwest Airlines	2,864,328
U.S. Airways	212,240
Total Passengers	4,359,928

***** Note:***

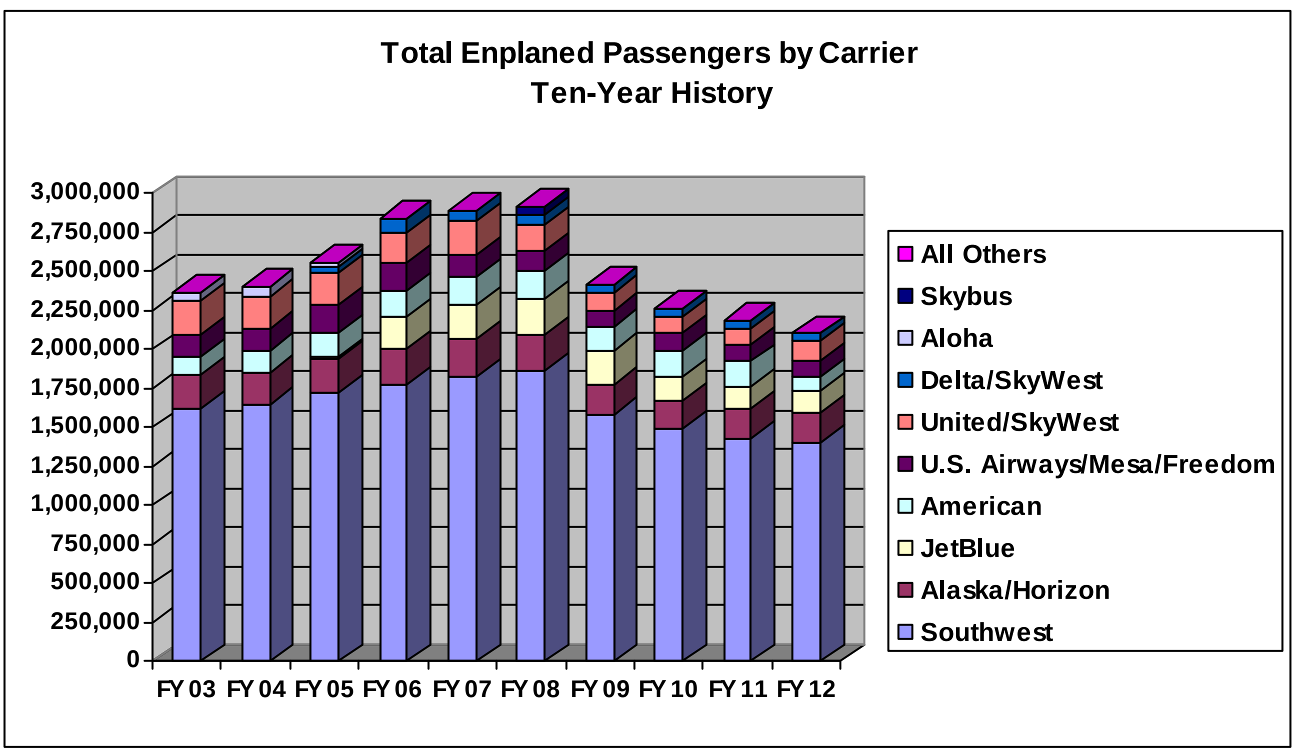
Delta Air Lines service is provided by Delta Connection and United Airlines service is provided by United Express, both operated by SkyWest Airlines.

Illustrated below is a ten-year history of total passengers:

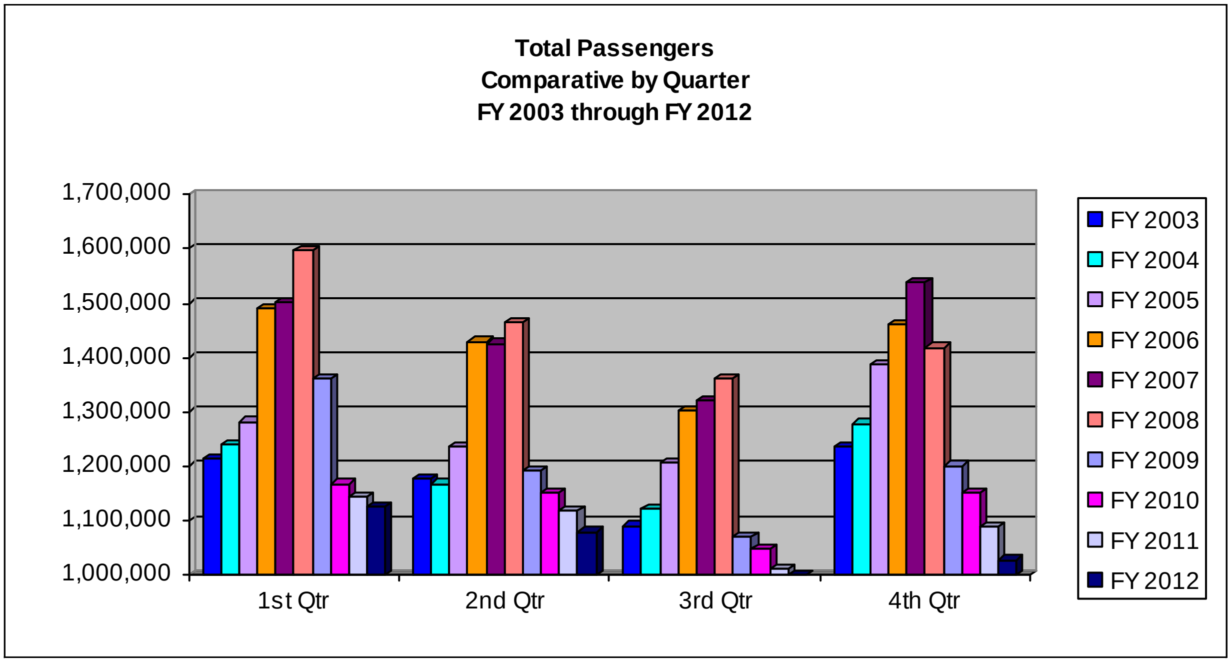


Total Passengers	
FY 2012	4,206,023
FY 2011	4,359,928
FY 2010	4,515,713
FY 2009	4,823,781
FY 2008	5,841,021
FY 2007	5,785,843
FY 2006	5,681,528
FY 2005	5,111,412
FY 2004	4,804,639
FY 2003	4,714,539

Illustrated below is a ten-year history of enplaned passengers, by carrier:



Illustrated below is a comparison, by quarter, of passenger activity for FY 2003 through FY 2012.



	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total Passengers
FY 2003	1,213,440	1,176,469	1,089,632	1,234,998	4,714,539
FY 2004	1,238,575	1,166,731	1,121,090	1,278,243	4,804,639
FY 2005	1,281,556	1,235,911	1,205,963	1,387,982	5,111,412
FY 2006	1,489,935	1,428,739	1,302,471	1,460,383	5,681,528
FY 2007	1,500,235	1,426,202	1,320,763	1,538,643	5,785,843
FY 2008	1,597,498	1,464,432	1,360,627	1,418,464	5,841,021
FY 2009	1,361,546	1,190,767	1,070,324	1,201,144	4,823,781
FY 2010	1,167,429	1,149,536	1,047,910	1,150,838	4,515,713
FY 2011	1,144,365	1,118,158	1,009,449	1,087,956	4,359,928
FY 2012	1,124,984	1,079,179	975,529	1,026,331	4,206,023

Operating Revenues

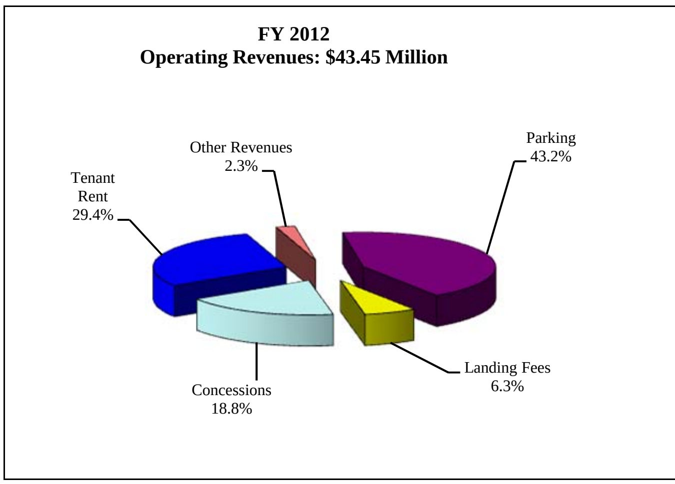
The Airport derives its operating revenues from the operation of parking facilities, tenant rent, concessionaire-assessed rents and fees, aircraft landing fees, and other assessments including ground transportation access fees and fuel flowage fees.

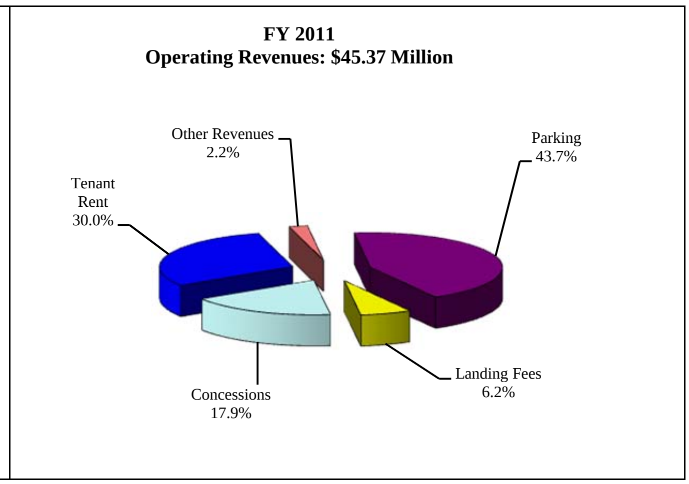
The following table illustrates a comparative summary of operating revenues in FY 2012, FY 2011 and FY 2010:

Comparative Summary of Operating Revenues

				FY 2011/12 increase (decrease)		FY 2010/11 increase (decrease)	
	FY 2012	**FY 2011**	**FY 2010**	**Amount**	**%**	**Amount**	**%**
Parking	$ 18,767,804	19,825,325	20,331,286	(1,057,521)	(5.3)%	$ (505,961)	(2.5)%
Landing fees	2,762,824	2,808,867	2,996,230	(46,043)	(1.6)	(187,363)	(6.3)
Concessions	8,163,553	8,098,199	7,944,325	65,354	0.8	153,874	1.9
Tenant rent	12,762,592	13,620,630	14,072,543	(858,038)	(6.3)	(451,913)	(3.2)
Other operating revenues	997,663	1,011,990	1,033,033	(14,327)	(1.4)	(21,043)	(2.0)
Total operating revenues	$ 43,454,436	45,365,011	46,377,417	(1,910,575)	(4.2)	$ (1,012,406)	(2.2)

The charts below illustrate the distribution of major sources of operating revenues in FY 2012 and FY 2011:





Total operating revenue decreased by $1,910,575, or 4.2%, during FY 2012. Operating revenues directly impacted by decreased passenger levels and reduced air carrier activity from the impacts of the national economic recession, including the termination of service by American Airlines in February 2012, include parking revenues, which decreased $1,057,521, or 5.3%; concession revenues, which increased $65,354, or 0.8%; and landing fees, which decreased $46,043, or 1.6%. Changes to components of concession revenues include rental cars (a 0.6% decrease), food/beverage (a 3.4% increase), gift/news (a 2.5% decrease) and advertising (a 13.4% increase). Landing fees are impacted by decreased number of landing aircraft and changes for some operations to smaller aircraft. Tenant rent decreased by $858,038, or 6.3%, primarily due to contractual increases in existing leases (CPI adjustments) of $256,258, the impact of leases for new tenants in FY 2012 offset by the impact of leases terminated in FY 2011 (net increase of $167,183), offset by full year impact of partial termination of certain hangar leases in FY 2011 from GTC Management Service of $801,908 and a small portion of hangar leases of FBO operator Million Air in FY 2011 of $226,044, and tenant improvement allowance for new tenants of $246,000. Other operating revenues decreased by $14,327, or 1.4%, primarily due to decreases in fuel flowage fees.

Total operating revenue decreased by $1,012,406, or 2.2%, during FY 2011. Operating revenues directly impacted by decreased passenger levels and reduced air carrier activity from the impacts of the national economic recession include parking revenues, which decreased $505,961, or 2.5%; concession revenues, which increased $153,874, or 1.9%; and landing fees, which decreased $187,363, or 6.3%. Changes to components of concession revenues include rental cars (a 4.6% increase), food/beverage (a 4.0% increase), gift/news (a 2.0% increase) and advertising (a 2.2% decrease). Landing fees are impacted by decreased number of landing aircraft and changes for some operations to smaller aircraft. Tenant rent decreased by $451,913, or 3.2%, primarily due to contractual increases in existing leases (CPI adjustments) of $177,819, offset by partial termination of certain hangar leases from GTC Management Service of $70,523 and the full year impact of termination of a small portion of ramp space of FBO operator Atlantic Aviation and a small portion of hangar leases of FBO operator Million Air in FY 2010 of $353,315. Other operating revenues decreased by $21,043, or 2.0%, primarily due to decreases in fuel flowage fees.

Operating Expenses

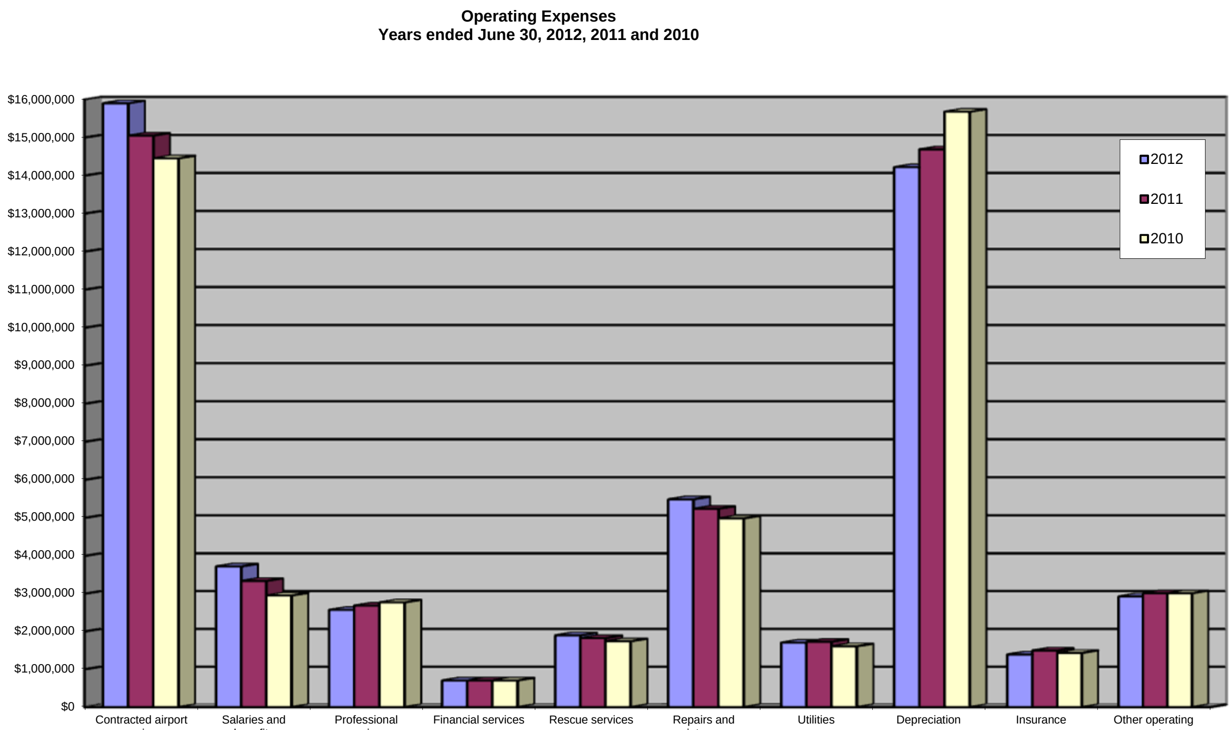
The following illustrates a comparative summary of operating expenses in FY 2012, FY 2011 and FY 2010:

Operating Expenses Summary

	FY 2012	FY 2011	FY 2010	FY 2011/12 increase (decrease) Amount	FY 2011/12 increase (decrease) %	FY 2010/11 increase (decrease) Amount	FY 2010/11 increase (decrease) %
Contracted airport services	$ 15,902,247	15,051,145	14,453,670	851,102	5.7%	$ 597,475	4.1%
Salaries and benefits	3,722,641	3,340,203	2,953,126	382,438	11.4	387,077	13.1
Financial services	703,995	703,676	703,075	319	0.0	601	0.1
Rescue services	1,900,000	1,825,000	1,741,667	75,000	4.1	83,333	4.8
Repairs and maintenance, materials and supplies	5,489,154	5,240,095	4,987,357	249,059	4.8	252,738	5.1
Utilities	1,704,783	1,728,285	1,609,350	(23,502)	(1.4)	118,935	7.4
Professional services	2,571,717	2,686,206	2,769,555	(114,489)	(4.3)	(83,349)	(3.0)
Insurance	1,392,037	1,496,860	1,433,007	(104,823)	(7.0)	63,853	4.5
Other operating expenses	2,930,094	3,011,980	3,012,593	(81,886)	(2.7)	(613)	(0.0)
Operating expenses before depreciation	36,316,668	35,083,450	33,663,400	1,233,218	3.5	1,420,050	4.2
Depreciation	14,223,495	14,689,703	15,679,876	(466,208)	(3.2)	(990,173)	(6.3)
Total operating expenses	$ 50,540,163	49,773,153	49,343,276	767,010	1.5	$ 429,877	0.9

Total operating expenses increased by $767,010, or 1.5%, in FY 2012 from a combination of factors, as follows: (1) decreased depreciation expense (decrease of $466,208) resulting from the impact of capital assets fully depreciated in FY 2012 and FY 2011 exceeding capital asset additions in FY 2012 and FY 2011 by $1.9 million; (2) increased contracted airport services costs (increase of $851,102) consists of increased parking operator costs primarily related to cost of living increases and additional benefits for parking operator staff (increase of $314,036), and increased Airport Manager costs primarily related to cost of living adjustments (increase of $258,371) and impact of filing open staff positions (increase of $262,287); (3) increased salaries and benefits costs for airport police officers (increase of $382,438) primarily resulting from the second year increases included in the three-year memorandum of understanding with the Burbank-Glendale-Pasadena Airport Police Officers Association that went into effect as of February 1, 2011; and (4) increased repairs and maintenance costs (increase of $249,059) primarily resulting from airfield striping removal ($415,000) offset by decreased airfield and roadway pavement repairs.

Total operating expenses increased by $429,877, or 0.9% in FY 2011 from a combination of factors, as follows: (1) decreased depreciation expense (decrease of $990,173) resulting from the impact of capital assets fully depreciated in FY 2011 and FY 2010 exceeding capital asset additions in FY 2011 and FY 2010 by $9.9 million; (2) additional contracted airport services costs (increase of $597,475) consists of increased parking operator costs primarily related to cost of living increases (increase of $191,505), and increased Airport Manager costs primarily related to cost of living adjustments (increase of $273,757) and impact of filling open staff positions (increase of $282,649); (3) increased salaries and benefits costs for airport police officers (increase of $387,077) primarily resulting from filling open positions and from the impacts of a revised three-year memorandum of understanding with the Burbank-Glendale-Pasadena Airport Police Officers Association that went into effect as of February 1, 2011; (4) increased repairs and maintenance costs (increase of $252,738) primarily resulting from increase airfield and roadway pavement repairs; and (5) increase utility costs (increase of $118,935) primarily the result of a increases in City of Burbank Water and Power rates of 3.5% for electrical and 13.5% for water and wastewater utilities, respectively.



Nonoperating Revenues and Expenses

The following summary illustrates a comparison of nonoperating revenues and expenses in FY 2012, FY 2011 and FY 2010:

Comparative Summary of Nonoperating Revenues and Expenses

	FY 2012	FY 2011	FY 2010	FY 2011/12 increase (decrease) Amount	FY 2011/12 increase (decrease) %	FY 2010/11 increase (decrease) Amount	FY 2010/11 increase (decrease) %
Nonoperating revenues:							
Passenger Facility Charge (PFC) revenues	$ 8,989,090	9,642,916	10,291,366	(653,826)	(6.8)%	$ (648,450)	(6.3)%
Customer Facility Charge (CFC) revenues	5,154,028	3,186,870	1,755,750	1,967,158	61.7	1,431,120	81.5
Investment income	1,710,173	2,508,763	4,210,575	(798,590)	(31.8)	(1,701,812)	(40.4)
FAA and other grants	6,123,074	4,446,419	3,828,715	1,676,655	37.7	617,704	16.1
	21,976,365	19,784,968	20,086,406	2,191,397	11.1	(301,438)	(1.5)
Nonoperating expenses:							
Interest expense	2,612,714	2,644,347	2,850,515	(31,633)	(1.2)	(206,168)	(7.2)
Sound insulation program	7,099,900	6,894,782	6,109,511	205,118	3.0	785,271	12.9
Other	1,324,404	317,434	537,831	1,006,970	317.2	(220,397)	(41.0)
	11,037,018	9,856,563	9,497,857	1,180,455	12.0	358,706	3.8
Total nonoperating revenues (expenses), net	$ 10,939,347	9,928,405	10,588,549	1,010,942	10.2	$ (660,144)	(6.2)

Nonoperating revenues of $21,976,365 in FY 2012 and $19,784,968 in FY 2011 consist of PFC receipts; CFC receipts; investment income, net of amounts capitalized of $50,433 and $4,381 in FY 2012 and FY 2011, respectively; and FAA sound insulation and other non-capital grants (capital grant revenues are included in capital contributions). PFC revenue decreased in FY 2012 and FY 2011 due to the decline in passenger traffic and reduced investment income on the PFC Fund resulting from a decline in interest rates. CFC revenue increased in FY 2012 due to the change in rate, in accordance with State law, from $10 per rental car transaction to $6 per rental car transaction day, up to a maximum of five rental days, effective July 1, 2011; and increased in FY 2011 due to a full year implementation of the CFC charge, which was implemented on December 1, 2009 for funding of the CRCF. Investment income decreased in FY 2012 and FY 2011 as interest rates fell. Investment income of $50,433 and $4,381 was capitalized in FY 2012 and FY 2011, respectively. FAA sound insulation grant revenues increased in FY 2012 and FY 2011 because of related changes in sound insulation program costs and the proportion of multifamily units in the program, which are reimbursed primarily with PFC revenues.

Nonoperating expenses of $11,037,018 and $9,856,563 in FY 2012 and FY 2011, respectively, include $7,099,900 and $6,894,782, respectively, associated with the Airport's residential and school sound insulation program. These costs increased in FY 2012 by $205,118, or 3.0%, because of an increase in the number of residences insulated and in progress during the year, including multifamily residences. 263 residences were acoustically treated in FY 2012 and 99 are in progress at June 30, 2012. The Authority received grant commitments from the FAA for noise insulation of $7 million in August 2007, $3 million in June 2008 and

$7 million in February 2009. Costs for this program increased in FY 2011 by $785,271, or 12.9%, because of an increase in the number of residences insulated and in progress during the year, including multifamily residences. 207 residences were acoustically treated in FY 2011 and 203 were in progress at June 30, 2011. Interest expense of $2,612,714 and $2,644,347, net of capitalized interest of $580,115 and $46,393 in FY 2012 and FY 2011, respectively, consists of interest expense and related amortization of bond issue costs and original issue premium on the 2005 Bonds and 2012 Bonds. Other non-operating expenses include (1) outreach and consensus/nighttime noise mitigation costs of $632,093 and $240,776 in FY 2012 and FY 2011, respectively, to obtain community and stakeholder input and reach consensus on the future vision of the Airport, which may include a new or relocated terminal and transit-oriented development on the B-6 Trust Property, as well as to meet the Authority's ongoing commitment to work with the City of Burbank and surrounding communities to seek meaningful nighttime noise relief to residences surrounding the airport; (2) ground access study costs of $443,186 and $74,052 in FY 2012 and FY 2011, respectively; (3) Part 150 Noise Compatibility Study Update costs of $301,485 in FY 2012; and (4) net (gain) loss on retirement of capital assets of ($52,360) and $2,606 in FY 2012 and FY 2011, respectively.

Capital Contributions

Capital contributions amounting to $2,611,810 and $657,273 were recorded during FY 2012 and FY 2011, respectively. In FY 2012 these amounts represent FAA airport improvement program grants for acquisition of an Aircraft Rescue and Firefighting (ARFF) Truck of $496,231, Runway Safety Area rehabilitation (blast fence and service road relocation) of $1,413,313 and ARFF Building rehabilitation of $87,420; U.S. Department of Homeland Security (DHS) Urban Areas Security Initiative (UASI) grants for Airport Roadway and Perimeter Security infrastructure of $528,605 and Federal Transit Administration (FTA) grants for the Transit Center portion of the RITC of $86,241. In FY 2011 these amounts represent FAA airport improvement program grants for acquisition planning (RFP) for acquisition of an ARFF Truck of $10,770, Runway Shoulder Rehabilitation of $627,934, Runway Safety (blast fence and service road relocation) of $14,791; and a U.S. Department of Justice grant for Bulletproof vests of $3,778.

Special Item –Environmental Litigation and Settlement

In January 2010, the Authority received a letter from the U.S. Environmental Protection Agency (EPA) indicating that the Agency intended to name the Authority as one of approximately 30 parties designated under the federal Superfund law (CERCLA) as "potentially responsible parties" (PRPs) for the second interim remedy at the North Hollywood Operable Unit (NHOU). The second interim remedy was estimated by EPA to cost approximately $108 million. This was a preliminary estimate that was made without benefit of a detailed engineering analysis of the exact components of the proposed remedy. Thus, the actual remediation costs could vary considerably from EPA's estimate. In July 2010, the Authority received a letter from the EPA formally designating the Authority as a "potentially responsible party" and requested that the Authority, together with other named PRPs, form a group and submit a good faith settlement offer to EPA to undertake the work required for the second interim remedy. The July 2010 letter also contained a demand by EPA for payment of certain of its past costs incurred in the NHOU and a portion of the collective San Fernando Valley Superfund Sites that the EPA calculated to be approximately $13 million.

Separately, the Authority filed a lawsuit, Burbank-Glendale-Pasadena Airport Authority v. Lockheed Martin Corporation, No. CV 10-2392 MRP (ANx) in the United States District Court for the Central District of

California (Indemnification Action). That lawsuit claimed that Lockheed Martin Corporation owed the Authority a contractual duty to defend and indemnify against the EPA's current claims. The Authority based its claims principally upon a written indemnification provision in the 1978 Airport Purchase Agreement executed by it and by Lockheed. Lockheed answered the complaint, denying the material allegations thereof and asserting various affirmative defenses.

The Authority subsequently settled its lawsuit with Lockheed Martin Corporation by written agreement on February 22, 2011. The written settlement agreement provided that the Authority pay to Lockheed Martin Corporation the sum of $2,000,000 over two years, with the second installment due in January 2012. In exchange, Lockheed Martin Corporation agreed to defend and indemnify the Authority for certain settled matters, including all response costs in connection with the second interim remedy for the North Hollywood Operable Unit asserted by EPA or by any other PRP against either or both Lockheed Martin Corporation and the Authority.

Included in the Special Item for the years ended June 30, 2012 and 2011 are the costs of the settlement totaling $0 and $2,000,000, and legal costs related to the EPA and Lockheed matters totaling $797 and $878,795, respectively.

Effective February 1, 2011, the Authority implemented a rate increase of $1 per day to all parking charges, the proceeds of which are to be used to fund the EPA and Lockheed legal and settlement costs, including $514,854 incurred in FY 2010. Incremental parking revenues totaling $1,248,545 and $528,383 for the years ended June 30, 2012 and 2011, respectively, net of the related 12% City of Burbank parking tax on such incremental parking revenues totaling $149,825 and $63,406, respectively, are not included in parking revenues but, rather, are included in the Special Item until the legal and settlement costs noted above are fully recovered.

Capital Assets

Additions to capital assets in FY 2012 and FY 2011 totaled $16.3 million and $22.1 million, respectively.

Significant capital asset additions in FY 2012 include:

- Land for runway safety area clearance
- Ramps A and B paving
- Runway 15 runway safety area improvements
- Airport roadway and perimeter security infrastructure improvements
- ARFF truck acquisition
- Additions to construction in progress on the RITC, DVSS Phase IV and CUPPS projects.

Significant capital asset additions in FY 2011 include:

- Runway shoulder rehabilitation
- Extension of Taxiway D Blast Fence

- Repaving of certain general aviation aircraft ramps
- Landside water line replacement
- Terminal B carpet replacement
- CNG engine retrofit on one shuttle bus
- Additions to construction projects in progress of the RITC, Aircraft Ramps A and B rehabilitation and CUPPS projects.

		2012	2011	2010
Capital assets:				
Land	$	158,758,472	156,923,796	156,923,796
Other non-depreciable capital assets		589,966	589,966	589,966
Buildings and improvements		131,506,161	130,779,287	129,619,952
Runways and improvements		91,678,433	85,078,552	83,702,945
Machinery and equipment		33,694,093	32,584,591	31,841,547
Construction in progress		23,757,668	22,348,353	4,543,304
Less accumulated depreciation		(160,158,720)	(150,520,115)	(136,871,456)
Total capital assets, net	$	279,826,073	277,784,430	270,350,054

The Authority has contract commitments outstanding at June 30, 2012 for various construction contracts totaling $94,659,332, including $84,859,113 related to the RITC project. Subsequent to June 30, 2012, the Authority entered into additional construction contracts totaling $1,767,755 primarily related to a runway rehabilitation project, an ARFF building rehabilitation project and the RITC project.

Additional information regarding the Authority's capital assets can be found in note 5 in the accompanying notes to the basic financial statements.

Long-Term Debt Administration

On May 26, 2005, the Authority issued $67,535,000 of 2005 Airport Revenue Bonds (2005 Bonds) in three series at an effective interest rate of 4.680% and at an original issue premium of $2,968,089. The $7,750,000 Airport Revenue Bonds 2005 Series A (non-AMT) (2005 Series A Bonds) were issued to refinance the $9,395,000 outstanding Airport Revenue Bonds Refunding Series 1992 (1992 Bonds). The $50,765,000 Airport Revenue Bonds 2005 Series B (AMT) and the $9,020,000 Airport Revenue Bonds 2005 Taxable Series C Bonds were issued to finance the acquisition and improvement of certain land adjacent to the Bob Hope Airport to be used for Airport parking (A-1 North Property Development project). The 2005 Bonds mature in varying amounts through July 1, 2025. The outstanding balance of 2005 Bonds at June 30, 2012 is $53,550,000, plus unamortized original issue premium of $1,908,954, for a net total amount outstanding for this issue of $55,458,954. Principal payments on the 2005 Bonds of $2,640,000 and $2,530,000 were made July 1, 2011 and 2010, respectively. The current portion of 2005 Bonds at June 30, 2012 is $2,755,000, which was paid July 1, 2012.

The 2005 Bonds are insured by Ambac; Ambac's ratings have steadily deteriorated. In July 2009, Moody's Investors Service and Standard and Poor's downgraded Ambac to Caa2 and CC, respectively, and withdrew their rating in April 2011 and November 2010, respectively. The underlying ratings of the 2005 Bonds were reviewed in April 2012 by Standard and Poor's which reaffirmed its rating of A+ outlook stable; Fitch Ratings, which downgraded its rating from AA- outlook negative to A+ outlook stable; and Moody's Investors Service, which downgraded its rating from Aa3 stable outlook to A1 negative outlook. Fitch Ratings and Moody's Investors service changed their ratings due to the issuance of the 2012 Bonds and the impact on coverage ratios, as well as the decline in passengers due to the continuing impact of the national economy on demand. In March 2008, Moody's Investors Service upgraded its underlying rating on the 2005 Bonds from A1 to Aa3 (stable) and affirmed its rating in April 2009 and June 2010. Standard and Poor's affirmed its rating in November 2008, March 2010 and August 2011. Fitch Ratings affirmed its rating in February 2010 and May 2011, and changed its outlook to negative in November 2011.

On May 10, 2012, the Authority issued $82,165,000 of 2012 Airport Revenue Bonds (2012 Bonds) in two series with an effective interest rate of 5.624% and at an original issue premium of $187,886. The 2012 Revenue Bonds, issued as parity bonds with the 2005 Bonds, were issued (i) to finance those costs of the RITC project consisting of the CRCF and the portion of the costs of the Replacement Parking Structure attributable to the parking spaces displaced by the CRCF (2012 Bond Project); (ii) to fund the 2012 Debt Service Reserve Fund; (iii) to provide capitalized interest with respect to the 2012 Bonds through July 1, 2014; and to pay the costs of issuance of the 2012 Bonds. Debt service on the 2012 Bonds is expected to be repaid through Customer Facility Charges (CFCs) and residual rents from rental car companies using the CRCF. The $6,715,000 Airport Revenue Bonds 2012 Series A (AMT) (2012 Series A Bonds) and the $75,450,000 Airport Revenue Bonds 2012 Taxable Series B (2012 Taxable Series B Bonds) mature in varying amounts from 2015 through 2042.

The underlying ratings of the 2012 Bonds were reviewed in April 2012 by Standard and Poor's, which assigned a rating of A+ outlook stable; Fitch Ratings, which assigned a rating of A+ outlook stable, and Moody's Investors Service, which assigned a rating of A1 negative outlook.

Additional information regarding the Authority's long-term debt can be found in note 6 in the accompanying notes to the basic financial statements.

Other Items

Airport Development Agreement

The Authority and the City of Burbank approved a March 15, 2005 "Development Agreement" that sets guidelines on Airport development and provides greater certainty to the City and Authority on issues of Airport zoning and development. Under the original terms of the agreement, for a period of seven years, the existing footprint of the terminal, the number of air carrier gates, and the area available for general aviation may not be increased. The Agreement retains approximately 59 acres of property (the B-6 Property) in a trust. The provisions of the trust allow the Authority to use approximately 33 acres of the B-6 Property for purposes that do not involve expansion or enlargement of the Airport. The ultimate disposition of the B-6 Property is to be determined upon the expiration of a ten-year period. The original terms of the agreement also provide that current zoning of Airport property remains unchanged for seven years and allow aviation facilities to be developed consistent with that zoning. Further, the original terms of the agreement defer public planning and the construction of a new or relocated passenger terminal for a period of ten years.

Under the Development Agreement and related project approvals, the City of Burbank approved the acquisition and planned use of the A-1 North Property (including the former Star Park parking lot) permitting the Authority to acquire and improve this property to relocate valet and self-parking facilities, and permitted the Taxiway D extension.

Based on a recommendation of the Airport Land Use Working Group, the Authority and the City agreed to an extension of the Development Agreement to March 15, 2015, and revised the agreement to permit seeking public input on the future vision of the airport, which may include a new or relocated passenger terminal. This Development Agreement amendment was approved by the Authority via Resolution No. 443 adopted on August 1, 2011, and approved by the City via Ordinance No. 3819 adopted on September 13, 2011.

Regional Intermodal Transportation Center (RITC)

On August 24, 2010, the City of Burbank approved entitlements and minor amendments to the Development Agreement to permit the Authority to proceed with the Regional Intermodal Transportation Center (RITC) project to be located in the southeast corner of the A-1 North Property. This project will include a transportation center linking the Airport with the Metrolink/Amtrak Bob Hope Airport train station immediately south of the Airport, local and regional bus service, and other mass transit transportation in the Authority's continuing efforts to promote alternative access to the Airport. The RITC will also include a consolidated rental car facility (CRCF) which will consolidate the rental car operations at the Airport, relocate the ready-return facility that is currently partially located in the Runway 33 runway safety area and eliminate over 700,000 annual trips on Empire Avenue of rental cars traveling between the ready return lot and the current service center facilities used for the washing and fueling of the rental cars on the southwest quadrant of the Airport. The CRCF will be funded in part from Customer Facility Charge (CFC) fees established December 1, 2009, as amended, and residual rent fees from the rental car companies, as required. An elevated covered moving sidewalk will accommodate pedestrian travel between the RITC and the terminal, but will not be physically connected to the terminal building. The Authority has begun discussions with the City of Burbank's Burbank Water and Power Department (BWP) that would allow installation by BWP of solar power panels on the roof of the RITC to provide an alternate energy source for the community. A publicly accessible consolidated natural gas (CNG) fueling facility to be developed and operated under a ground development lease is also planned which will promote use of alternate fuel vehicles.

On May 14, 2012, the Authority awarded construction contracts and issued notices to proceed for construction of the RITC. Costs of Phase 1 of the RITC project, estimated at $112.6 million, are to be funded from 2012 Revenue Bonds issued May 10, 2012 and Customer Facility Charges (CFCs) through the construction period ($81.6 million), Passenger Facility Charges ($16.2 million), federal grants ($1.6 million) and Authority investment from the Facility Development Fund ($10.1 million) and a loan from the Authority to the rental car companies for contingency, if used ($3.1 million). The replacement parking structure is expected to be completed in August 2013 and the balance of the RITC project is expected to be completed in September 2014.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Burbank-Glendale-Pasadena Airport Authority, 2627 N. Hollywood Way, Burbank, California, 91505.

BASIC FINANCIAL STATEMENTS

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BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Net Assets

June 30, 2012 and 2011

Assets	2012	2011
Current unrestricted assets:		
Cash and investments – current operating fund (note 3)	$ 29,011,146	28,847,625
Grants receivable	1,346,379	646,957
Accounts receivable, net of allowance of $56,333 and $15,500 in 2012 and 2011, respectively	739,705	810,117
Accrued interest receivable	833,477	963,599
Prepaid expenses	60,418	68,751
Total current unrestricted assets	31,991,125	31,337,049
Current restricted assets:		
Cash and investments (note 3):		
Cash and investments with trustee	80,386,359	9,512,601
Other restricted cash and investments:		
Operating Reserve Fund	9,144,522	8,971,569
Authority Areas Reserve	2,561,214	2,477,286
Asset Forfeiture Fund	82,456	228,264
Passenger Facility Charge Fund	29,421,366	24,990,394
Customer Facility Charge Fund	8,546,940	3,540,924
Total other restricted cash and investments	49,756,498	40,208,437
Total restricted cash and investments	130,142,857	49,721,038
Passenger Facility Charge receivables	843,807	965,558
Customer Facility Charge receivables	450,552	296,510
Accrued interest receivable, restricted funds	203,031	219,484
Total current restricted assets	131,640,247	51,202,590
Noncurrent restricted assets – Trust Assets (note 4)	58,873,509	58,873,509
Total restricted assets	190,513,756	110,076,099
Bond issuance costs, net (note 6)	2,331,862	737,164
Cash and investments – Facility Development Reserve (note 3)	105,000,000	100,000,000
Capital assets (notes 5 and 9):		
Land	158,758,472	156,923,796
Other nondepreciable capital assets	589,966	589,966
Construction in progress	23,757,668	22,348,353
Buildings and improvements	131,506,161	130,779,287
Runways and improvements	91,678,433	85,078,552
Machinery and equipment	33,694,093	32,584,591
Less accumulated depreciation	(160,158,720)	(150,520,115)
Total capital assets, net	279,826,073	277,784,430
Total assets	609,662,816	519,934,742

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Net Assets

June 30, 2012 and 2011

Liabilities		**2012**	**2011**
Current liabilities:			
Accounts payable and accrued expenses	$	11,694,290	10,013,860
Salaries and benefits payable		513,489	467,652
Unearned revenue		606,866	473,161
Customer deposits		203,448	165,607
Total current liabilities		13,018,093	11,120,280
Liabilities payable from restricted assets (note 6):			
Current portion of long-term debt:		2,755,000	2,640,000
Accrued interest payable		1,944,532	1,390,219
Total liabilities payable from restricted assets		4,699,532	4,030,219
Long-term debt, net of current portion (note 6):			
Revenue bonds payable, less current portion		132,960,000	53,550,000
Original issue premium, net		2,095,956	2,058,186
Total long-term liabilities		135,055,956	55,608,186
Total liabilities		152,773,581	70,758,685
Net Assets			
Invested in capital assets, net of related debt		220,535,719	225,693,846
Restricted:			
Debt service		11,422,569	11,736,865
Capital projects		98,348,907	89,051,292
Unrestricted		126,582,040	122,694,054
Total net assets	$	456,889,235	449,176,057

See accompanying notes to basic financial statements.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

		2012	2011
Operating revenues:			
Charges for services:			
Parking	$	18,767,804	19,825,325
Landing fees		2,762,824	2,808,867
Concessions		8,163,553	8,098,199
Tenant rent		12,762,592	13,620,630
Fuel flowage fees		495,210	533,820
Other operating revenues		502,453	478,170
Total operating revenues		43,454,436	45,365,011
Operating expenses:			
Contracted airport services		15,902,247	15,051,145
Salaries and benefits		3,722,641	3,340,203
Financial services		703,995	703,676
Rescue services		1,900,000	1,825,000
Materials and supplies		344,973	367,457
Repairs and maintenance		5,144,181	4,872,638
Utilities		1,704,783	1,728,285
Professional services		2,571,717	2,686,206
Insurance		1,392,037	1,496,860
Other operating expenses		2,930,094	3,011,980
Total operating expenses before depreciation		36,316,668	35,083,450
Operating income before depreciation		7,137,768	10,281,561
Depreciation (note 5)		14,223,495	14,689,703
Operating loss		(7,085,727)	(4,408,142)
Nonoperating revenues (expenses):			
Passenger Facility Charge revenue, including interest on the Passenger Facility Charge Fund of $286,374 and $404,103 in 2012 and 2011, respectively (note 10)		8,989,090	9,642,916
Customer Facility Charge revenue (note 11)		5,154,028	3,186,870
Investment income, net of $50,433 and $4,381 capitalized in 2012 and 2011, respectively		1,710,173	2,508,763
Interest expense, net of $580,115 and $46,393 capitalized in 2012 and 2011, respectively		(2,612,714)	(2,644,347)
Gain (loss) on retirement of capital assets		52,360	(2,606)
Sound insulation program (note 8)		(7,099,900)	(6,894,782)
Federal Aviation Administration grants, sound insulation program (note 8)		5,524,065	4,319,375
Other noncapital federal grants		599,009	127,044
Other expenses, net		(1,376,764)	(314,828)
Total nonoperating revenues, net		10,939,347	9,928,405
Income before capital contributions and special item		3,853,620	5,520,263
Capital contributions		2,611,810	657,273
Special item – environmental litigation settlement net of allocated parking increment revenue of $1,248,545 and $528,383 in 2012 and 2011, respectively (note 16)		1,247,748	(2,350,412)
Changes in net assets		7,713,178	3,827,124
Total net assets – beginning of year		449,176,057	445,348,933
Total net assets – end of year	$	456,889,235	449,176,057

See accompanying notes to basic financial statements.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from airline carriers, tenants, and others	$ 43,691,644	45,489,478
Cash paid to suppliers of goods and services	(30,274,599)	(29,403,834)
Cash paid for employees' services	(3,650,866)	(3,286,368)
Cash paid for parking taxes to the City of Burbank	(2,013,737)	(2,133,837)
Cash paid for other nonoperating expenses –		
Outreach and consensus and nighttime noise mitigation	(596,629)	(249,109)
Cash paid from settlement – hangar floors	(1,241,704)	(28,190)
Cash (paid for) received from Special Item (note 16):		
Cash paid for environmental litigation settlement	(1,001,071)	(1,878,521)
Cash received from $1 parking rate increment	1,398,370	591,789
Cash paid for parking taxes to the City of Burbank for parking increment	(153,634)	(23,830)
Net cash provided by operating activities	6,157,774	9,077,578
Cash flows from noncapital financing activities:		
Sound insulation program	(7,056,562)	(7,597,164)
FAA grants, sound insulation program	5,448,836	4,401,551
Ground access study	(407,435)	(58,220)
Part 150 noise compatability study	(273,568)	—
Other noncapital federal grants received	392,453	82,594
Net cash used in noncapital financing activities	(1,896,276)	(3,171,239)
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(12,440,151)	(21,150,418)
Proceeds from sale of capital assets	52,110	—
Principal paid on revenue bonds	(2,640,000)	(2,530,000)
Interest paid on revenue bonds	(2,721,038)	(2,835,149)
Proceeds from issuance of 2012 Bonds	81,568,556	—
Payment to vendors for bond issuance costs	(709,161)	—
Passenger Facility Charge program receipts	8,824,467	9,731,928
Customer Facility Charge program receipts	4,999,986	3,248,030
Capital contributions received	2,194,172	695,536
Net cash provided by (used in) capital and related financing activities	79,128,941	(12,840,073)
Cash flows from investing activities:		
Interest received on investments, including interest received in the Passenger Facility Charge Fund of $444,140 and $528,684 in 2012 and 2011, respectively	3,232,600	3,113,798
Purchases of investments not considered cash equivalents	(161,442,262)	(138,439,525)
Proceeds from the sale or maturity of investments not considered cash equivalents	83,186,666	145,709,291
Net cash provided by (used in) investing activities	(75,022,996)	10,383,564
Net increase (decrease) in cash and cash equivalents	8,367,443	3,449,830
Cash and cash equivalents, beginning of year	22,185,721	18,735,891
Cash and cash equivalents, end of year	$ 30,553,164	22,185,721

(Continued)

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(7,085,727)	(4,408,142)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation		14,223,495	14,689,703
Other noncash operating expenses, net		41,763	620
Other nonoperating expenses		(632,093)	(240,776)
Special item (note 16)		1,247,748	(2,350,412)
Changes in assets and liabilities:			
Accounts receivable		70,412	(15,852)
Prepaid expenses		8,333	(807)
Accounts payable and accrued expenses		(929,457)	168,323
Accounts payable and accrued expenses related to Special Item		(1,004,083)	1,039,850
Salaries and benefits payable		45,837	59,332
Unearned revenue		133,705	155,291
Customer deposits		37,841	(19,552)
Net cash provided by operating activities	$	6,157,774	9,077,578
Reconciliation of cash and cash equivalents to the statements of net assets:			
Operating fund	$	29,011,146	28,847,625
Restricted cash and investments		130,142,857	49,721,038
Facility Development Reserve		105,000,000	100,000,000
Cash, cash equivalents, and investments		264,154,003	178,568,663
Investments not considered cash equivalents		(233,600,839)	(156,382,942)
Cash and cash equivalents, end of year (note 3)	$	30,553,164	22,185,721
Summary of significant noncash investing and financing activities:			
Amortization of bond issuance costs, premiums, and deferred amounts on refunding	$	(82,522)	(89,698)
Change in fair value of investments		(1,039,045)	(74,229)
Change in capital assets acquired by accounts payable		3,459,421	941,760
Change in sound insulation program from accounts payable		43,339	(702,381)
Capitalized interest expense, net		529,682	42,012
Capitalized bond issuance costs (underwriters' discount) not included in 2012 Bond proceeds		(784,330)	—

See accompanying notes to basic financial statements.

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(1) Nature of Authority

The Burbank-Glendale-Pasadena Airport Authority (the Authority) is a separate governmental entity created by a Joint Exercise of Power Agreement (Agreement) executed in June 1977 among the Cities of Burbank, Glendale, and Pasadena, California (Cities). The purpose of the Agreement was to enable the Cities to acquire, operate, repair, maintain, improve, and administer the Bob Hope Airport (the Airport) as a public air terminal. The Authority is governed by a nine-member Board of Airport Commissioners, three of which are appointed by the City Council of each of the Cities. The members of the Airport Commission annually elect a President, Vice-President, and Secretary of the Commission. The Authority has contracted with TBI Airport Management, Inc. to perform certain airport administrative, maintenance, and operational services. These contracted services are included in the Authority's statements of revenues, expenses, and changes in net assets as "contracted airport services." The Authority directly employs airport police officers.

The debts, liabilities, and obligations of the Authority do not constitute debts, liabilities, or obligations of the Cities. The accompanying basic financial statements are not included in the reporting entity of any of the Cities.

(2) Summary of Significant Accounting Policies

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below:

(a) Basis of Accounting

The Authority reports its financial operations as a governmental enterprise activity, and as such, its financial statements are presented using the economic resources measurement focus and the accrual method of accounting. Revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. The measurement focus is on determination of changes in net assets, financial position, and cash flows. Operating revenues include charges for services and tenant rent. Operating expenses include costs of services as well as materials, contracts, personnel, and depreciation. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The Authority follows private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board (FASB) and predecessor standard setters prior to November 30, 1989, unless those standards conflict with or contradict guidance of the GASB. The Authority also has the option of following subsequent private-sector guidance subject to the same limitation. The Authority has elected not to follow subsequent private-sector guidance.

(b) Description of Basic Financial Statements

Statements of Net Assets – The statements of net assets are designed to display the financial position of the Authority. The Authority's equity is reported as net assets which is classified into three categories defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets, totaling $220,535,719 and $225,693,846 at June 30, 2012 and 2011, respectively, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments through constitutional provisions or enabling legislation. Net assets restricted for debt service totaled $11,422,569 and $11,736,865 at June 30, 2012 and 2011, respectively. Net assets restricted for capital projects totaled $98,348,907 and $89,051,292 at June 30, 2012 and 2011, respectively, including $30,395,450 and $26,112,085, respectively, restricted by enabling legislation for the passenger facility charge program and $8,997,492 and $3,837,434, respectively, restricted by enabling legislation for the customer facility charge program.
- *Unrestricted* – This component of net assets, totaling $126,582,040 and $122,694,054 at June 30, 2012 and 2011, respectively, consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt." Included in unrestricted net assets at June 30, 2012 and 2011 are net assets committed by Authority Resolution for engine repowerment of shuttle buses of $541,043 and $541,043, respectively.

Statements of Revenues, Expenses, and Changes in Net Assets – The statements of revenues, expenses, and changes in net assets are the operating statements for the Authority. Revenues are reported by major source. This statement distinguishes between operating and nonoperating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses before depreciation, and operating income.

Statements of Cash Flows – The statements of cash flows present information on the Authority's cash receipts and payments during the fiscal year. These cash flows are grouped into five categories: operating activities, noncapital financing activities, capital and related financing activities, investing activities and noncash investing and financing activities.

Notes to Basic Financial Statements – The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

(c) Operating and Nonoperating Revenues and Expenses

The Authority distinguishes between operating revenues and expenses and nonoperating items. Operating revenues and expenses generally result from providing goods and services to Airport users. The principal operating revenues of the Airport are parking fees, landing fees, concession charges, tenant rent, and fuel flowage fees. Operating expenses include contracted airport services, salaries and employee benefits, maintenance and operation of systems and facilities, administrative expenses including compliance with federal, state and local regulatory requirements, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(d) Restricted Assets

Certain assets are restricted based on constraints placed on the assets use through external constraints imposed by creditors (such as through debt covenants), grantors, leases, trust agreements, contributors, laws or regulations of other governments or enabling legislation. Restricted funds are nondiscretionary in terms of use and provide for payment of debt service on Authority bonds, reserves for outstanding bonds, construction of long-term assets and operations, and maintenance. The Authority, after necessary fund transfers have been made to comply with bond covenants, has discretion as to the magnitude and use of the remaining unrestricted funds.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources, as they are needed.

(e) Grants and Capital Contributions

The Authority receives grants under the Airport Improvement Program (AIP) from the U.S. Department of Transportation – Federal Aviation Administration (FAA) to finance certain capital improvements and a majority of the sound insulation program. The Authority receives grants from the Department of Transportation – Federal Transit Administration for a portion of the Regional Intermodal Transportation Center project and the Federal Highway Administration for a ground access study. The Authority also receives grants from the U.S. Department of Homeland Security and U.S. Department of Justice for certain security-related infrastructure and equipment purchases. Finally, the Authority received a grant under the American Recovery and Reinvestment Act of 2009 (ARRA) through the FAA for certain taxiway reconstruction. Such grants related to capital acquisitions are recorded on the statements of revenues, expenses, and changes in net assets as capital contributions, and for the sound insulation program as nonoperating revenue FAA grants – sound insulation program. Grant revenues are recognized when qualifying expenses under the grant are incurred.

(f) Passenger Facility Charge Revenues

The Authority imposes a Passenger Facility Charge (PFC) of $4.50 per enplaned passenger, as approved by the U.S. Department of Transportation – Federal Aviation Administration, to finance certain capital improvements. Cash and receivables from such revenues are maintained in separate accounts and are restricted for approved airport improvement projects. Revenues are recognized during the period earned.

(g) Customer Facility Charge Revenues

The Authority imposes a Customer Facility Charge (CFC) of $6 per rental car transaction day up to five days ($10.00 per rental car transaction prior to July 1, 2011), to finance the planning, design and construction of a consolidated rental car facility (CRCF), in accordance with California Civil Code

Section 1936(m) et seq. Cash and receivables from such revenues are maintained in separate accounts and are restricted for the CRCF project. Revenues are recognized during the period earned.

(h) Revenues and Cash Accounts

All revenues, except Passenger Facility Charges and Customer Facility Charges (upon completion of the CRCF, the Customer Facility Charges will be transferred to the Debt Service Fund), are deposited in the Revenue Fund and are transferred to the following cash accounts in priority order as mandated by resolution of the Authority and its bond indenture:

- **Operating Fund** – The balance in this fund is to be used for payment of operations and maintenance costs as they become due and payable.
- **Rebate Fund** – Amounts on deposit in the Rebate Fund shall be applied to satisfy federal tax law requirements. As of June 30, 2012 and 2011, there was no balance in the Rebate Fund.
- **Debt Service Fund** – Bond interest currently payable on the 2005 Bonds is deposited to this account monthly prior to each semiannual payment. Currently payable bond principal on the 2005 Bonds is transferred to this account monthly prior to each annual payment. The interest and principal amounts due on the 2012 Bonds through July 1, 2014 in the amount of $9,277,903 was deposited to this account upon issuance of the 2012 Bonds from bond proceeds. This cash fund is held by a trustee who pays the bond interest and principal when due.
- **Debt Service Reserve Funds –** An amount equal to the lesser of (i) ten percent of the initial offering price of the Revenue Bonds, (ii) greatest annual debt service from the current period to the maturity of the Revenue Bonds, or (iii) 125% of average annual debt service from the current period to the maturity of the Revenue Bonds (a separate account each for the 2005 Bonds and the 2012 Bonds), is to be held by the trustee in these funds to be used in the event that monies in the Debt Service Fund are insufficient to meet payments when due. During the years ended June 30, 2012 and 2011, the required balance in the Debt Service Reserve Fund, calculated using (ii) greatest annual debt service from the current period to the maturity of the Revenue Bonds, is $5,419,588 and $5,420,438, respectively, for the 2005 Bonds, and $5,838,000 for the period ended June 30, 2012 for the 2012 Bonds. The balance in the Debt Service Reserve Fund for the 2005 Bonds at June 30, 2012 and 2011 is $5,483,000 and $5,482,381, respectively. The balance in the Debt Service Reserve Fund for the 2012 Bonds is $5,838,593 at June 30, 2012.
- **Operating Reserve Fund** – The balance in this fund is to be used to pay operation and maintenance costs in the event that monies in the Operating Fund are insufficient. The Authority maintains a reserve equivalent to one-fourth of the annual operations and maintenance budget. The balance in the Operating Reserve Fund at June 30, 2012 and 2011 is $9,144,522 and $8,971,569, respectively.
- **Subordinated Indebtedness Fund** – In the event that additional debt is incurred, which is expressly made subordinate or junior in right of payment to the 2005 Bonds, this fund will be established and used to pay principal, interest, and other allowable costs associated with the

subordinated indebtedness. As of June 30, 2012 and 2011, there was no balance in the Subordinated Indebtedness Fund.

- **Reserve and Contingency Fund** – The balance in this fund is to be used to pay the costs of extraordinary repairs and replacements of Airport facilities to the extent that such costs are not provided from the proceeds of insurance or from other funds. Any remaining balances in the Reserve and Contingency Fund, not required to meet any deficiencies in the Debt Service Fund or Debt Service Reserve Funds or not needed for any of the purposes for which such Fund was established, shall be transferred to the Operating Fund, and any remaining excess may be deposited in the Surplus Fund. As of June 30, 2012 and 2011, there was no balance in the Reserve and Contingency Fund.
- **Surplus Fund** – All monies remaining in the Revenue Fund at year-end are to be deposited in this fund and may be transferred to offset other fund deficiencies in the following priority order: first in the Debt Service Fund, second in the applicable Debt Service Reserve Fund, third to the Subordinated Indebtedness Fund, and fourth to the Reserve and Contingency Fund. Amounts in the Surplus Fund not required to meet a deficiency as set forth above shall be applied or set aside as allowed for in the bond indenture. As of June 30, 2012 and 2011, there was no balance in the Surplus Fund to be transferred to any of the funds mentioned above.
- **Cost of Issuance Funds** – The balance in this fund provides for the payment of costs to issue the 2005 Bonds and 2012 Bonds not paid directly from escrow at the closing of the sale of the 2005 Bonds and 2012 Bonds. This fund is held by a trustee and is subject to the terms and conditions as set forth in the bond indenture. As of June 30, 2012 and 2011, there was no balance in the Cost of Issuance Fund for the 2005 Bonds and as of June 30, 2012 the balance in the Cost of Issuance Fund for the 2012 Bonds is $47,830.
- **Construction Funds** – The balance in this fund provides for the payment of applicable Capital Improvements identified to be financed from the 2005 Series B Bonds and the 2005 Taxable Series C Bonds, and the 2012 Series A Bonds and 2012 Taxable Series B Bonds. These funds are held by a trustee and are subject to the terms and conditions as set forth in the bond indenture. As of June 30, 2012 and 2011, there is no balance in the Construction Fund for the 2005 Bonds, and $5,093,581 and $50,559,632 as of June 30, 2012 for the 2012 Series A Bonds and 2012 Taxable Series B Bonds, respectively.

(i) Other Reserves

The Authority maintains the following additional restricted cash:

- **Authority Areas Reserve** – Operating revenues received from certain areas specified in the airline signatory leases are set aside to be utilized at the discretion of the Authority for any lawful purpose.
- **Asset Forfeiture Fund –** The Authority receives funds from the U.S. Department of Justice, U.S. Department of Treasury and the State of California Department of Justice under the equitable sharing programs of each agency related to certain law enforcement activities. These assets are used to purchase certain equipment to supplement law enforcement activities at Bob Hope Airport.

- **Passenger Facility Charge Fund –** Cash and receivables from the Passenger Facility Charge program are maintained in a separate account and are restricted for approved airport improvement projects.
- **Customer Facility Charge Fund –** Cash and receivables from the Customer Facility Charge program are maintained in a separate account and are restricted for planning, design, construction and financing of a consolidated rental car facility.

The Authority maintains the following board-designated cash:

- **Facility Development Reserve** – Reserve established during fiscal year 2000 to provide for the future development of terminal and other Airport facilities. The actual appropriation of these funds to selected facility development projects will be determined based on the approval of the Authority.

(j) Capital Assets

Capital assets are defined by the Authority as assets with an initial, individual cost of $1,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost, less accumulated depreciation. 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 are capitalized as projects are constructed. Net interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. During the year ended June 30, 2012, interest cost of $580,115 less interest income of $50,433 was capitalized. During the year ended June 30, 2011, interest cost of $46,393 less interest income of $4,381 was capitalized. Depreciation is recognized in amounts calculated to amortize the cost of the depreciable assets over their estimated useful lives. Depreciation is computed on a straight-line basis over the following periods:

Buildings and improvements	3 to 25 years
Runways and improvements	3 to 25 years
Machinery and equipment	3 to 20 years

(k) Vacation and Sick Leave

Employees may receive 80 to 160 hours of vacation each year (40 to 80 hours for job share employees), depending on length of service with the Authority. Vacation is not earned until the year is completed. An employee may accrue up to 250 hours of vacation; any hours earned in excess of 250 hours are forfeited, unless approved by management.

Employees are also entitled to 100 hours of personal leave during each year (50 hours for job share employees). Employees may accrue personal leave or may receive payment for any unused portion of personal leave days at the end of each year.

Employees are also entitled to bank up to 120 hours of overtime for personal leave.

Vacation and personal leave are accrued as earned by employees.

(l) Investments and Invested Cash

In accordance with California Government Code (Code) Section 53600 et seq., the Authority adopts an investment policy annually for the Operating, PFC and CFC portfolios that, among other things, authorizes types of allowable investments, maximum maturities, maximum concentration of investments by type of investment and issuer, minimum ratings for certain types of investments, and how the investments may be held. These criteria on investments and invested cash related to the Authority's bonded debt are governed by the related Master Indenture of Trust. The Authority further limits all investments to be more restrictive than the Code. Authorized investments and invested cash include U.S. Treasury securities, corporate notes, federal agency securities, money market mutual funds, bankers' acceptances, commercial paper, negotiable and non-negotiable certificates of deposit, repurchase agreements, guaranteed investment contracts and funds deposited in the State Treasurer's Local Agency Investment Fund. Additional restrictions in the Authority's investment policy over the requirements of the Code include: (1) smaller maximum portions of the portfolios for certain investment types (e.g., U.S. Agency securities, negotiable and time certificates of deposit, bankers' acceptances, commercial paper, money market mutual funds, State Treasurer's Local Agency Investment Fund), (2) smaller maximum portions of the portfolios invested in a single institution/issuer (e.g., negotiable and time certificates of deposit, corporate notes, bankers' acceptances, commercial paper) (3) limiting the underlying investments of money market mutual funds to U.S. Treasury securities, and (4) excluding investments in reverse repurchase agreements and securities lending agreements, collateralized mortgage obligations and similar investments, debt securities issued by other local agencies and shares of beneficial interest issued by joint powers authorities formed in accordance with Section 6509.7 of the Code. The restrictions in the Code and the additional limitations in the Authority's investment policy mitigate the Authority's interest rate risk, credit risk, concentration of credit risk, and custodial credit risk related to its various investments.

The Authority's investments are carried at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of money market mutual funds and other similar investments is stated at its share value. The fair value of the Authority's investment in the State Treasurer's Local Agency Investment Fund (LAIF) is based on the Authority's pro rata share provided by LAIF of the fair value of the entire LAIF portfolio. Certain money market mutual fund investments with initial maturities at the time of the purchase of less than one year are recorded at cost. The calculation of realized gains and losses on investments that had been held more than one fiscal year and sold during the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year.

(m) Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers its investment in money market mutual funds and in the State Treasurer's Local Agency Investment Fund to be cash equivalents that function as a demand deposit account, whereby funds may be withdrawn or deposited at any time without prior notice or penalty. Unrestricted investments in other securities with remaining maturities of 90 days or less at the time of purchase are also considered cash equivalents. Investments in money market mutual funds held by the bond trustee are not considered cash equivalents for purposes of the statement of cash flows.

(n) Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(p) Income Taxes

The Authority is a political subdivision of the state of California. Accordingly, the Authority is not subject to federal or state income taxes.

(q) Pollution Remediation Liabilities

The Authority implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, for the FY 2009 basic financial statements and currently does not believe it has any pollution remediation liabilities at June 30, 2012 or 2011 (see note 16).

(r) Recent Accounting Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, and Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

The requirements of Statement No. 63 will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The Authority currently has no transactions that result in deferred outflows of resources or deferred inflows of resources as defined in the Statement; accordingly, the Statement is expected to have minimal or no impact on the Authority's financial reporting.

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

Statement are effective for financial statements for periods beginning after June 15, 2011. The Authority currently does not engage in derivative or swap agreements; accordingly, the Statement is expected to have minimal or no impact on the Authority's financial reporting.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The Authority has not yet adopted this statement.

In March 2012, GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This is not applicable to the Authority. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, respectively*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The Authority adopted this statement effective July 1, 2011.

Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement No. 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information. The provisions of this Statement are effective for Pension Plan financial statements for periods beginning after June 15, 2013. Earlier application is encouraged. This Statement is not applicable to the Authority.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014. Earlier application is encouraged. The Authority has not yet adopted this statement.

(s) Reclassifications

Certain reclassifications have been made to the amounts reported in 2011 in order to conform to the 2012 presentation. Such reclassifications had no effect on the previously reported change in net assets.

(3) Cash and Investments

(a) Cash and Investments

(i) Cash and investments at June 30, 2012 and 2011 are classified in the accompanying statements of net assets as follows:

		2012	2011
Cash and investments – current assets:			
Operating fund	$	29,011,146	28,847,625
Cash and investments – restricted assets:			
Cash and investments held by bond trustee:			
Debt service fund – 2005 Bonds		4,085,820	4,030,220
Debt service reserve fund – 2005 Bonds		5,483,000	5,482,381
Debt service fund – 2012 Bonds		9,277,903	—
Debt service reserve fund – 2012 Bonds		5,838,593	—
Construction funds – 2012 Bonds		55,653,213	—
Costs of issuance fund – 2012 Bonds		47,830	—
Total cash and investments held by bond trustee		80,386,359	9,512,601
Other restricted cash and investments:			
Operating Reserve fund		9,144,522	8,971,569
Authority Areas Reserve fund		2,561,214	2,477,286
Asset Forfeiture fund		82,456	228,264
Passenger Facility Charge fund		29,421,366	24,990,394
Customer Facility Charge fund		8,546,940	3,540,924
Total other restricted cash and investments		49,756,498	40,208,437
Total cash and investments – restricted assets		130,142,857	49,721,038
Cash and investments – Facility Development Reserve		105,000,000	100,000,000
Total cash and investments	$	264,154,003	178,568,663

(ii) Cash and investments as of June 30, 2012 and 2011 consist of the following:

		2012	2011
Operating portfolio cash and investments:			
Cash and cash equivalents:			
Cash on hand	$	800	800
Deposits with financial institutions		2,085,206	536,263
Money market mutual funds		4,198,790	2,372,313
State Treasurer's Local Agency Investment Fund		14,967,294	12,438,897
Total cash and cash equivalents		21,252,090	15,348,273
Investments:			
U.S. Treasury securities		48,759,488	58,889,419
U.S. Agency securities		45,410,679	35,151,229
Medium-term corporate notes		30,377,081	31,135,823
Total investments		124,547,248	125,176,471
Total cash and cash equivalents and investments		145,799,338	140,524,744
Less restricted portion		(11,788,192)	(11,677,119)
Less Facility Development Reserve		(105,000,000)	(100,000,000)
Current and unrestricted cash and investments	$	29,011,146	28,847,625
Passenger Facility Charge Fund:			
Cash and cash equivalents:			
Deposits with financial institutions	$	487,782	495,315
Money market mutual funds		266,352	2,801,209
Total cash and cash equivalents		754,134	3,296,524
Investments:			
U.S. Treasury securities		11,565,154	8,382,069
U.S. Agency securities		10,613,872	6,508,634
Medium-term corporate notes		6,488,206	6,803,167
Total investments		28,667,232	21,693,870
Total cash and cash equivalents and investments	$	29,421,366	24,990,394
Customer Facility Charge Fund:			
Deposits with financial institutions	$	8,546,940	3,540,924
Investments held by bond trustee:			
Money market mutual funds	$	74,965,930	4,092,173
U.S. Agency securities		5,420,429	5,420,428
Total investments	$	80,386,359	9,512,601

		2012	2011
Summary of cash and investments:			
Cash and cash equivalents:			
Cash on hand	$	800	800
Deposits with financial institutions		11,119,928	4,572,502
Money market mutual funds		4,465,142	5,173,522
State Treasurer's Local Agency Investment Fund		14,967,294	12,438,897
Total cash and cash equivalents		30,553,164	22,185,721
Investments:			
U.S. Treasury securities		60,324,642	67,271,488
U.S. Agency securities		61,444,980	47,080,291
Medium-term corporate notes		36,865,287	37,938,990
Money market mutual funds held by bond trustee		74,965,930	4,092,173
Total investments		233,600,839	156,382,942
Total cash and cash equivalents and investments	$	264,154,003	178,568,663

Cash balances, except for those held by the Trustee, held in the Authority’s payroll account or held as petty cash are pooled for deposit and investment purposes. Cash and investments funds are classified under the general headings of “restricted” or “unrestricted.” The Authority has designated separate restricted funds to carry on specific activities in accordance with special regulations, bond covenants, or enabling legislation. Restricted funds are nondiscretionary in terms of use and provide for payment of debt service on Authority bonds, reserves for outstanding bonds, construction of long-term assets, and operations and maintenance. The Authority, after necessary fund transfers have been made to comply with bond covenants, has discretion as to the magnitude and use of the remaining unrestricted funds.

(b) Investments Authorized by the California Government Code and the Authority's Investment Policy

The table below identifies the investment types that are authorized for the Authority by the California Government Code (or the Authority's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Authority's investment policy, where more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of the Master Indenture of Trust, as amended, rather than the California Government Code or the Authority's investment policy.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio[a]	Maximum investment in one issuer
U.S. Treasury securities	5 years	None	None
U.S. Agency securities	5 years	70%	None
Time deposits	5 years	15%	5%
State Treasurer's Local Agency Investment Fund (LAIF)	N/A	$20 million	None
Bankers' acceptances	180 days	15%	5%
Commercial paper	270 days	15%	5%
Repurchase agreements	1 year	10%	None
Money market mutual funds, invested in U.S. Treasury securities	N/A	15%	None
Medium-term corporate notes	5 years	30%	5%
Negotiable certificates of deposit	5 years	15%	5%

a. Percentages apply separately to the Operating portfolio, the Passenger Facility Charge Fund portfolio and the Customer Facility Charge Fund portfolio. Excludes amounts held by bond trustee.

(c) Investments Authorized Under the Master Indenture of Trust

Investment of debt proceeds held by the bond trustee are governed by provisions of the Master Indenture of Trust, rather than the general provisions of California Government Code or the Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of the Master Indenture of Trust that address interest rate risk, and concentration of credit risk.

Authorized investment type	Maximum maturity	Maximum percentage allowed	Maximum investment in one issuer
U.S. Treasury securities	5 years	None	None
U.S. Agency securities	5 years	None	None
Money market mutual funds	N/A	None	None
Negotiable certificates of deposit	5 years	None	None
Time and savings deposits	5 years	None	None
Guaranteed investment contracts	30 years	None	None
Commercial paper	270 days	None	None
State or local government securities	5 years	None	None
Bankers' acceptances	360 days	None	None
Repurchase agreements	30 days	None	None
Any State of California-administered investment pool	N/A	None	None
Advance refunded municipal securities	5 years	None	None
Investments approved in writing by the bond insurer	30 years	None	None

(d) 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 the sensitivity of its fair value to changes in market interest rates. One of the ways that the Authority 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 close to maturing evenly over time, as necessary to provide the cash flow and liquidity needed for operations. The Authority monitors the interest rate risk in its portfolios by measuring the weighted average maturity of the portfolios and limiting them to an average level recommended by its professional investment manager, currently approximately 1.5 years. The Authority also employs a "buy and hold" investment strategy whereby investments are held to maturity and redeemed at par. This strategy limits the Authority's exposure to declines in fair value to unforeseen emergencies when the need for cash beyond that which is planned and anticipated may arise.

The weighted average maturity of each authorized investment type by pool at June 30, 2012 and 2011 are as follows:

	June 30, 2012		June 30, 2011	
Authorized investment type	**Amount**	**Weighted average maturity (in years)**	**Amount**	**Weighted average maturity (in years)**
Operating portfolio cash equivalents and investments:				
Operating portfolio investments:				
U.S. Treasury securities	$ 48,759,488	1.38	$ 58,889,419	1.54
U.S. Agency securities	45,410,679	0.98	35,151,229	1.33
Medium-term corporate notes	30,377,081	1.49	31,135,823	2.13
Total operating portfolio Investments	124,547,248	1.26	125,176,471	1.63
Operating portfolio cash equivalents:				
Money market mutual funds	4,198,790	0.14	2,372,313	0.05
State Treasurer’s Local Agency Investment Fund	14,967,294	0.74	12,438,897	0.66
Total operating portfolio cash equivalents	19,166,084	0.61	14,811,210	0.56
Total operating portfolio cash equivalents and investments	143,713,332	1.18	139,987,681	1.52
Passenger Facility Charge (PFC) Fund cash equivalents and investments:				
PFC Fund investments:				
U.S. Treasury securities	11,565,154	1.71	8,382,069	1.60
U.S. Agency securities	10,613,872	1.16	6,508,634	1.42
Medium-term corporate notes	6,488,206	1.49	6,803,167	2.09
Total PFC Fund investments	28,667,232	1.46	21,693,870	1.70
PFC Fund cash equivalents – money market mutual funds	266,352	0.14	2,801,209	0.05
Total PFC Fund cash equivalents and investments	28,933,584	1.44	24,495,079	1.51
Investments held by bond trustee:				
Money market mutual funds	74,965,930	0.13	4,092,173	0.07
U.S. Agency securities	5,420,429	<0.01	5,420,428	<0.01
Total investments held by bond trustee	80,386,359	0.12	9,512,601	0.03
Total cash equivalents and investments	$ 253,033,275	0.87	$ 173,995,361	1.44

(e) Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

None of the Authority's investments (including investments held by the bond trustee) are highly sensitive to interest rate fluctuations.

(f) 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. Presented below is the minimum rating required by (where applicable) the California Government Code, the Authority's investment policy or the Master Indenture of Trust, as amended, and the actual rating as of June 30, 2012 and 2011 for each investment type.

In August 2011, Standard and Poor's, one of the nationally recognized statistical rating organizations, downgraded its long-term credit rating of U.S. government, U.S. government-sponsored enterprises and public debt issues that have credit enhancements by U.S. government-sponsored enterprises from AAA to AA+ with a negative outlook. Fitch Ratings and Moody's Investor Services, two other recognized statistical rating organizations, did not reduce the Treasury and Agency security ratings, but did indicate a negative outlook. These credit downgrades relate to the credit risk associated with the Authority's investments in U.S. Treasury securities, U.S. Agency securities, money market mutual funds invested in U.S. Treasury securities and State Treasurer's Local Agency Investment Fund investments in U.S. Treasury securities and U.S. Agency securities.

Authorized investment type	Amount	Minimum legal rating	Not required to be rated or not rated	Rating as of year-end AAA	AA	A
As of June 30, 2012:						
Operating portfolio cash equivalents and investments:						
Operating portfolio investments:						
U.S. Treasury securities	$ 48,759,488	N/A	$ 48,759,488	—	—	—
U.S. Agency securities:						
Fed. Farm Credit Bank	10,200,602	N/A	—	10,200,602	—	—
Fed. Home Loan Bank	13,618,398	N/A	—	13,618,398	—	—
Fed. Home Loan Mort. Corp.	14,422,263	N/A	—	14,422,263	—	—
Fed. National Mort. Assn.	7,169,416	N/A	—	7,169,416	—	—
Total U.S. Agency securities	45,410,679		—	45,410,679	—	—
Medium-term corporate notes	30,377,081	A	—	—	9,989,190	20,387,891
Total Operating portfolio Investments	124,547,248		48,759,488	45,410,679	9,989,190	20,387,891
Operating portfolio cash equivalents:						
Money market mutual funds	4,198,790	AAA	—	4,198,790	—	—
State Treasurer's Local Agency Investment Fund	14,967,294	N/A	14,967,294	—	—	—
Total Operating portfolio cash equivalents	19,166,084		14,967,294	4,198,790	—	—
Total Operating portfolio cash equivalents and investments	143,713,332		63,726,782	49,609,469	9,989,190	20,387,891
Passenger Facility Charge (PFC) Fund cash equivalents and investments:						
PFC Fund investments:						
U.S. Treasury securities	11,565,154	N/A	11,565,154	—	—	—
U.S. Agency securities:						
Fed. Farm Credit Bank	2,107,572	N/A	—	2,107,572	—	—
Fed. Home Loan Bank	2,190,615	N/A	—	2,190,615	—	—
Fed. Home Loan Mort. Corp.	3,361,513	N/A	—	3,361,513	—	—
Fed. National Mort. Assn.	2,954,172	N/A	—	2,954,172	—	—
Total U.S. Agency securities	10,613,872		—	10,613,872	—	—
Medium-term corporate notes	6,488,206	A	—	—	2,098,256	4,389,950
Total PFC Fund investments	28,667,232		11,565,154	10,613,872	2,098,256	4,389,950
PFC Fund cash equivalents – money market mutual funds	266,352	AAA	—	266,352	—	—
Total PFC Fund cash equivalents and investments	28,933,584		11,565,154	10,880,224	2,098,256	4,389,950
Investments held by bond trustee:						
U.S. Agency securities – Fed. National Mort. Assn.	5,420,429	AAA	—	5,420,429	—	—
Money market mutual funds	74,965,930	AAA	—	74,965,930	—	—
Total investments bond trustee	80,386,359		—	80,386,359	—	—
Total cash equivalents and investments	$ 253,033,275		$ 75,291,936	140,876,052	12,087,446	24,777,841

Authorized investment type	Amount	Minimum legal rating	Not required to be rated or not rated	Rating as of year-end AAA	AA	A
As of June 30, 2011:						
Operating portfolio cash equivalents and investments:						
Operating portfolio investments:						
U.S. Treasury securities	$ 58,889,419	N/A	$ 58,889,419	—	—	—
U.S. Agency securities:						
Fed. Farm Credit Bank	7,624,096	N/A	—	7,624,096	—	—
Fed. Home Loan Bank	13,876,299	N/A	—	13,876,299	—	—
Fed. Home Loan Mort. Corp.	9,641,798	N/A	—	9,641,798	—	—
Fed. National Mort. Assn.	4,009,036	N/A	—	4,009,036	—	—
Total U.S. Agency securities	35,151,229		—	35,151,229	—	—
Medium-term corporate notes	31,135,823	A	—	—	22,035,701	9,100,122
Total Operating portfolio Investments	125,176,471		58,889,419	35,151,229	22,035,701	9,100,122
Operating portfolio cash equivalents:						
Money market mutual funds	2,372,313	AAA	—	2,372,313	—	—
State Treasurer's Local Agency Investment Fund	12,438,897	N/A	12,438,897	—	—	—
Total Operating portfolio cash equivalents	14,811,210		12,438,897	2,372,313	—	—
Total Operating portfolio cash equivalents and investments	139,987,681		71,328,316	37,523,542	22,035,701	9,100,122
Passenger Facility Charge (PFC) Fund cash equivalents and investments:						
PFC Fund investments:						
U.S. Treasury securities	8,382,069	N/A	8,382,069	—	—	—
U.S. Agency securities:						
Fed. Farm Credit Bank	927,303	N/A	—	927,303	—	—
Fed. Home Loan Bank	2,251,010	N/A	—	2,251,010	—	—
Fed. Home Loan Mort. Corp.	1,648,719	N/A	—	1,648,719	—	—
Fed. National Mort. Assn.	1,681,602	N/A	—	1,681,602	—	—
Total U.S. Agency securities	6,508,634		—	6,508,634	—	—
Medium-term corporate notes	6,803,167	A	—	—	4,810,342	1,992,825
Total PFC Fund investments	21,693,870		8,382,069	6,508,634	4,810,342	1,992,825
PFC Fund cash equivalents – money market mutual funds	2,801,209	AAA	—	2,801,209	—	—
Total PFC Fund cash equivalents and investments	24,495,079		8,382,069	9,309,843	4,810,342	1,992,825
Investments held by bond trustee:						
U.S. Agency securities – Fed. National Mort. Assn.	5,420,429	AAA	—	5,420,429	—	—
Money market mutual funds	4,092,172	AAA	—	4,092,172	—	—
Total investments bond trustee	9,512,601		—	9,512,601	—	—
Total cash equivalents and investments	$ 173,995,361		$ 79,710,385	56,345,986	26,846,043	11,092,947

(g) Concentration of Credit Risk

The Authority's investment policy limits the amount that can be invested in any one issuer in corporate notes, bankers' acceptances, commercial paper, negotiable certificates of deposit and time certificates of deposit to 5% of the applicable portfolio. The investment policy contains no other 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 (other than U.S. Treasury securities, money market mutual funds, and external investment pools) that represent 5% or more of total Authority investments, by pool, are as follows:

	Authorized	Reported amount at June 30			
	investment	2012		2011	
Issuer	type	Amount	Fund%	Amount	Fund%
Operating portfolio investments:					
Federal Home Loan Mortgage Corp.	U.S. Agency securities	$ 14,422,263	10.04%	$ 9,641,798	6.89%
Federal Home Loan Bank	U.S. Agency securities	13,618,398	9.48	13,876,299	9.91
Federal Farm Credit Bank	U.S. Agency securities	10,200,602	7.10	7,624,096	5.45
Passenger Facility Charge Fund investments:					
Federal Home Loan Mortgage Corp.	U.S. Agency securities	3,361,512	11.62	1,648,719	6.73
Federal National Mortgage Association	U.S. Agency securities	2,954,172	10.21	1,681,602	6.87
Federal Home Loan Bank	U.S. Agency securities	2,190,615	7.57	2,251,010	9.19
Federal Farm Credit Bank	U.S. Agency securities	2,107,572	7.28	—	—
Held by bond trustee:					
Federal National Mortgage Association	U.S. Agency securities	5,420,429	6.74	5,420,429	56.98

(h) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit 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 Authority'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 provisions 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 state law (unless so waived by the government 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 Authority deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

At June 30, 2010 and 2009, a portion of the Authority's deposits with financial institutions were uninsured and the collateral was held in accordance with the California Government Code by the pledging financial institution in the Authority's name, as follows:

		2012	2011
Cash deposits:			
Insured (under Dodd-Frank beginning December 31, 2010 and under TAG program through December 31, 2009)	$	12,978,802	6,377,767
Plus deposits in transit		172,050	132,624
Less outstanding checks		(2,030,924)	(1,937,889)
Carrying amount of cash deposits	$	11,119,928	4,572,502

On July 21, 2010, the Dodd-Frank financial regulatory reform legislation was signed into law making all noninterest-bearing transaction accounts fully insured without limit effective December 31, 2010 until January 1, 2013. During the two-year period, all noninterest-bearing accounts of all banks are covered.

Investments and money market mutual funds in the Operating portfolio and Passenger Facility Charge Fund portfolio were held in the Authority's name by the trust department of the bank broker-dealer (counter-party) that was used by the Authority to buy the securities and mutual funds.

(i) Investment in the State Treasurer's Local Agency Investment Fund

The Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Authority's investment in this pool is reported in the accompanying basic financial statements at amounts based upon the Authority'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. As of June 30, 2012 and 2011, the total amount invested by all California local governments and special districts in LAIF was $21.9 billion and $24.0 billion, respectively. LAIF is part of the State of California's Pooled Money Investment Account (PMIA), which as of June 30, 2012 and 2011 had a balance of $60.6 billion and $66.5 billion, respectively. The PMIA is not SEC-registered, but is required to invest according to the California Government Code. Included in PMIA's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling $0.8 billion and $1.1 billion, respectively, and asset-backed securities totaling $1.3 billion and $2.2 billion, respectively.

(4) Trust Assets

Since shortly after the Authority was formed in June 1977, the Authority and the FAA have had on-going concerns and discussions about ways to relocate the terminal complex to improve runway safety at Bob Hope Airport. A number of different terminal facility configurations were studied and pursued over the years. After substantial litigation between the Authority and the City of Los Angeles, in 1996 the FAA issued a Record of Decision certifying an Environmental Impact Statement that identified the former approximately 130-acre Lockheed Plant B-6 (the B-6 Property) as a preferred site alternative for a replacement terminal.

The Authority subsequently began condemnation proceedings to take possession of the B-6 Property. During that condemnation process, the City of Burbank and a number of citizen groups took various actions seeking to prevent the acquisition of property and construction of a replacement terminal facility. Those actions included litigation and voter initiatives.

The condemnation process coupled with the City of Burbank litigation was completed in fiscal year 2000, and resulted in the Authority acquisition of fee-simple restricted title to a 49.2-acre portion of the B-6 Property, subject to agreements which limit the use of that property. Acquisition costs of that portion of the B-6 Property were transferred to the land capital asset account. Costs associated with the balance of the remaining 80.92 acres of the B-6 Property amounting to $80,372,618 were placed in a trust, with title granted to a third-party trustee, and with restrictions placed on the Authority's ability to use the trust property, principally limiting use of the property to non-aviation purposes (B-6 Trust Property). The B-6 Trust Property was classified as restricted trust assets on the Authority's fiscal year 2000 financial statements (see note 14).

In October 2001, the Authority entered into a concurrent agreement to obtain title and then sell 21.65 acres of the Los Angeles portion of the B-6 Trust Property to a third party for $16,954,121. The 21.65 acres of property were considered excess to the requirements for a potential replacement terminal facility. The sale did not materialize, and in fiscal year 2002, the Authority entered into a new agreement to sell the aforementioned 21.65 acres of property for $16,250,000, which closed in July 2003, with net proceeds of $15,428,133 (after brokers and closing fees). The Authority recorded cumulative losses in FY 2001, FY 2002, and FY 2003 totaling $8.3 million reducing the property to its estimated net realizable value each year. Based on the adjustments recorded to reduce the property's carrying value in the previous years and the final sale amount known in fiscal 2003, there was no gain or loss recorded in FY 2004 in conjunction with the completion of the property sale.

Under the terms of the March 15, 2005 Development Agreement, as amended (see note 14), the remaining approximate 59 acres of B-6 Trust Property will be retained in a trust for a ten-year period. During this period, the Authority may use approximately 33 acres of the B-6 Trust Property for purposes that do not involve the expansion or enlargement of the Airport. The ultimate disposition of the B-6 Trust Property is to be determined upon the expiration of the ten-year term.

(5) Capital Assets

Changes in capital assets for the year ended June 30, 2012 were as follows:

	July 1, 2011	Additions	Deletions	June 30, 2012
Capital assets not being depreciated:				
Land	$ 156,923,796	1,834,676	—	158,758,472
Other non-depreciable assets	589,966	—	—	589,966
Construction in progress	22,348,353	16,265,138	(14,855,823)	23,757,668
Total capital assets not being depreciated	179,862,115	18,099,814	(14,855,823)	183,106,106
Capital assets being depreciated/amortized:				
Building and improvements	130,779,287	1,423,044	(696,170)	131,506,161
Runways and improvements	85,078,552	10,067,124	(3,467,243)	91,678,433
Machinery and equipment	32,584,591	1,530,979	(421,477)	33,694,093
Total capital assets being depreciated/ amortized	248,442,430	13,021,147	(4,584,890)	256,878,687
Less accumulated depreciation/amortization for:				
Building structures	(74,829,398)	(7,056,440)	696,170	(81,189,668)
Runway/airfield improvements	(50,687,861)	(4,817,837)	3,467,243	(52,038,455)
Equipment	(25,002,856)	(2,349,218)	421,477	(26,930,597)
Total accumulated depreciation/ amortization	(150,520,115)	(14,223,495)	4,584,890	(160,158,720)
Total capital assets being depreciated/ amortized, net	97,922,315	(1,202,348)	—	96,719,967
Total capital assets, net	$ 277,784,430	16,897,466	(14,855,823)	279,826,073

(Continued)

Changes in capital assets for the year ended June 30, 2011 were as follows:

		July 1, 2010	Additions	Deletions	June 30, 2011
Capital assets not being depreciated:					
Land	$	156,923,796	—	—	156,923,796
Other non-depreciable assets		589,966	—	—	589,966
Construction in progress		4,543,304	22,126,685	(4,321,636)	22,348,353
Total capital assets not being depreciated		162,057,066	22,126,685	(4,321,636)	179,862,115
Capital assets being depreciated/amortized:					
Building and improvements		129,619,952	1,535,097	(375,762)	130,779,287
Runways and improvements		83,702,945	1,857,723	(482,116)	85,078,552
Machinery and equipment		31,841,547	928,816	(185,772)	32,584,591
Total capital assets being depreciated/ amortized		245,164,444	4,321,636	(1,043,650)	248,442,430
Less accumulated depreciation/amortization for:					
Building structures		(67,933,415)	(7,271,745)	375,762	(74,829,398)
Runway/airfield improvements		(46,885,304)	(4,284,673)	482,116	(50,687,861)
Equipment		(22,052,737)	(3,133,285)	183,166	(25,002,856)
Total accumulated depreciation/ amortization		(136,871,456)	(14,689,703)	1,041,044	(150,520,115)
Total capital assets being depreciated/ amortized, net		108,292,988	(10,368,067)	(2,606)	97,922,315
Total capital assets, net	$	270,350,054	11,758,618	(4,324,242)	277,784,430

(Continued)

(6) Long–Term Debt

The following is a summary of changes in long—term debt for the years ended June 30, 2012 and 2011:

	Beginning balance	Additions	Deductions	Ending balance	Due within one year
Year ended June 30, 2012:					
Revenue bonds payable:					
2005 Revenue Bonds:					
2005 Series A	$ 6,895,000	—	(880,000)	6,015,000	915,000
2005 Series B	49,295,000	—	(1,760,000)	47,535,000	1,840,000
Plus deferred amounts for original issue premium	2,058,186	—	(149,232)	1,908,954	—
2012 Revenue Bonds:					
2012 Series A	—	6,715,000	—	6,715,000	—
2012 Taxable Series B	—	75,450,000	—	75,450,000	—
Plus deferred amounts for original issue premium	—	187,886	(884)	187,002	—
Total long–term debt payable	$ 58,248,186	82,352,886	(2,790,116)	137,810,956	2,755,000
Year ended June 30, 2011:					
Revenue bonds payable:					
2005 Revenue Bonds:					
2005 Series A	$ 7,750,000	—	(855,000)	6,895,000	880,000
2005 Series B	50,765,000	—	(1,470,000)	49,295,000	1,760,000
2005 Taxable Series C	205,000	—	(205,000)	—	—
Plus deferred amounts for original issue premium	2,207,418	—	(149,232)	2,058,186	—
Total long–term debt payable	$ 60,927,418	—	(2,679,232)	58,248,186	2,640,000

(a) 2005 Revenue Bonds

On May 26, 2005, the Authority issued $67,535,000 of 2005 Airport Revenue Bonds (2005 Bonds) with an effective interest rate of 4.680% and at an original issue premium totaling $2,968,089. The 2005 Bonds were issued in three series. The 2005 Bonds are insured and are special obligations of the Authority payable solely from, and secured solely by a pledge of, the net revenues and amounts in certain funds established under the Master Indenture of Trust, as amended, and the Debt Service Reserve Fund.

The $7,750,000 Airport Revenue Bonds 2005 Series A (Non-AMT) (2005 Series A Bonds), at an effective interest rate of 3.964%, were issued to refinance the $9,395,000 outstanding balance of Airport Revenue Bonds, Refunding Series of 1992 (1992 Bonds) with a remaining coupon interest rate of 6.400%. The 2005 Series A Bonds are due in annual installments ranging from $880,000 to $1,100,000 from July 1, 2011 to July 1, 2017 with interest rates ranging from 3.500% to 4.000% payable semiannually on July 1 and January 1. The 2005 Series A Bonds maturing on or after July 1, 2016 are subject to optional redemption by the Authority, without premium, in whole or in part on any date on or after July 1, 2015. The balance of 2005 Series A Bonds outstanding at June 30, 2012 and 2011 is $6,015,000 and $6,895,000, respectively, plus unamortized original issue premium of $19,417 and $23,300, respectively. At June 30, 2012 and 2011, the current portion of the 2005 Series A Bonds, paid July 1, 2012 and 2011, are $915,000 and $880,000, respectively. Interest payable on the 2005 Series A Bonds totals $114,644 and $130,044 at June 30, 2012 and 2011, respectively. Bond issuance costs of $145,647 were capitalized and are being amortized using the straight-line method over the life of the 2005 Series A Bonds. Unamortized bond issue costs of $60,198 and $72,238 at June 30, 2012 and 2011, respectively, are reported in the accompanying statement of net assets.

The $50,765,000 Airport Revenue Bonds 2005 Series B (AMT) (2005 Series B Bonds), at an effective interest rate of 4.738%, and the $9,020,000 Airport Revenue Bonds 2005 Taxable Series C (2005 Taxable Series C Bonds), at an effective interest rate of 5.067%, were issued to finance the acquisition and improvement of certain land adjacent to the Bob Hope Airport to be used for Airport parking, fund the Debt Service Reserve Fund, and pay the cost of issuance of the 2005 Bonds. The 2005 Series B Bonds are due in annual installments ranging from $1,760,000 to $5,160,000 from July 1, 2011 to July 1, 2025 with interest rates ranging from 5.000% to 5.250% payable semiannually on July 1 and January 1. The 2005 Taxable Series C Bonds are due in annual installments ranging from $205,000 to $2,420,000 from July 1, 2006 to July 1, 2010 with interest rates ranging from 3.810% to 4.490% payable semiannually on July 1 and January 1. The 2005 Series B Bonds maturing on or after July 1, 2016 are subject to optional redemption, without premium, in whole or in part on any date on or after July 1, 2015. The balance of 2005 Series B Bonds outstanding at June 30, 2012 and 2011 is $47,535,000 and $49,295,000, respectively, plus unamortized original issue premium of $1,889,537 and $2,034,886, respectively. At June 30, 2012 and 2011, the current portion of the 2005 Series B Bonds, paid July 1, 2012 and 2011, are $1,840,000 and $1,760,000, respectively. Interest payable on the 2005 Series B Bonds totals $1,216,175 and $1,260,175 at June 30, 2012 and 2011, respectively. The 2005 Taxable Series C Bonds were paid in full July 1, 2010. Bond issuance costs of $954,512 for the 2005 Series B Bonds and $169,646 for the 2005 Taxable Series C Bonds were capitalized and are being amortized using the straight-line method over the life of the respective bonds. Unamortized bond issue costs at June 30, 2012 and 2011 for 2005 Series B Bonds of $617,432 and $664,926, respectively, are reported in the accompanying statement of net assets. The bond issue costs for 2005 Taxable Series C Bonds were fully amortized at June 30, 2010.

In accordance with the bond resolution, certain cash accounts (funds) are required to be segregated and minimum balances maintained as summarized in note 2. There are also a number of other limitations and restrictions contained in the Master Indenture of Trust, as amended. Authority management believes that the Authority has complied with such requirements.

(b) 2012 Revenue Bonds

On May 10, 2012, the Authority issued $82,165,000 of 2012 Airport Revenue Bonds (2012 Bonds) with an effective interest rate of 5.624% and at an original issue premium totaling $187,886. The 2012 Bonds, issued as parity bonds with the 2005 Bonds, were issued in two series. The 2012 Bonds are special obligations of the Authority payable solely from, and secured solely by a pledge of, the net revenues and amounts in certain funds established under the Master Indenture of Trust, as amended, and the Debt Service Reserve Fund. The net proceeds of the 2012 Bonds of $81,568,556 (including initial issue premium of $187,886 less underwriters' discount of $784,330) were deposited with the Bond Trustee into the Debt Service Reserve Fund ($5,838,000), Cost of Issuance Fund ($877,962), Debt Service Fund for debt service through July 1, 2014 ($9,277,903) and the Construction Fund ($65,574,691).

The $6,715,000 Airport Revenue Bonds 2012 Series A (AMT) (2012 Series A Bonds), at an effective interest rate of 4.949%, and the $75,450,000 Airport Revenue Bonds 2012 Taxable Series B (2012 Taxable Series B Bonds), at an effective interest rate of 5.722%, were issued (i) to finance those costs of the Regional Intermodal Transportation Facility project consisting of the CRCF and the portion of the costs of the Replacement Parking Structure attributable to the parking spaces displaced by the CRCF (2012 Bond Project); (ii) to fund the 2012 Debt Service Reserve Fund; (iii) to provide capitalized interest with respect to the 2012 Bonds through July 1, 2014; and to pay the costs of issuance of the 2012 Bonds.

The 2012 Series A Bonds are due in annual installments ranging from $1,155,000 to $5,560,000 from July 1, 2041 to July 1, 2042 at an interest rate of 5.000% payable semiannually on July 1 and January 1. 2012. The 2012 Series A Bonds are subject to optional redemption by the Authority, without premium, in whole or in part on any date on and after July 1, 2022 at a redemption price equal to the price equal to the principal and accrued interest to the redemption date on the portion to be redeemed. The balance of 2012 Series A Bonds outstanding at June 30, 2012 is $6,715,000, plus unamortized original issue premium of $187,002. Interest payable on the 2012 Series A Bonds totals $47,564 at June 30, 2012. Bond issuance costs of $133,974 were capitalized and are being amortized using the straight-line method over the life of the 2012 Series A Bonds. Unamortized bond issue costs of $133,345 at June 30, 2012 are reported in the accompanying statement of net assets.

The 2012 Taxable Series B Bonds are due in annual installments ranging from $1,500,000 to $4,970,000 from July 1, 2015 to July 1, 2041 with interest rates ranging from 2.036% to 5.812% payable semiannually on July 1 and January 1. The 2012 Taxable Series B Bonds are subject to optional redemption by the Authority, in whole or in part, on any date, at a Redemption Price equal to the Make-Whole Redemption Price, as defined in the Official Statement, plus unpaid accrued interest. The balance of 2012 Taxable Series B Bonds outstanding at June 30, 2012 is $75,450,000. Interest payable on the 2012 Taxable Series B Bonds totals $566,149 at June 30, 2012. Bond issuance costs of $1,528,318 were capitalized and are being amortized using the straight-line method over the life of the 2012 Taxable Series B Bonds. Unamortized bond issue costs of $1,520,888 at June 30, 2012 are reported in the accompanying statement of net assets.

In accordance with the bond resolution, certain cash accounts (funds) are required to be segregated and minimum balances maintained as summarized in note 2. There are also a number of other limitations and restrictions contained in the Master Indenture of Trust, as amended. Authority management believes that the Authority has complied with such requirements.

(Continued)

(c) Annual Debt Service Requirements to Maturity

Revenue bond debt service requirements to maturity are as follows:

	2005 Bonds		2012 Bonds		Total		Total debt
	Principal	Interest	Principal	Interest	Principal	Interest	service
Payable in year ending June 30:							
2013	$ 2,755,000	2,599,625	—	2,564,321	2,755,000	5,163,946	7,918,946
2014	2,880,000	2,469,100	—	3,996,345	2,880,000	6,465,445	9,345,445
2015	3,015,000	2,328,481	—	3,996,345	3,015,000	6,324,826	9,339,826
2016	3,160,000	2,181,075	1,500,000	3,981,075	4,660,000	6,162,150	10,822,150
2017	3,310,000	2,025,481	1,535,000	3,946,809	4,845,000	5,972,290	10,817,290
2018 – 2022	19,220,000	7,372,607	8,380,000	18,968,477	27,600,000	26,341,084	53,941,084
2023 – 2027	19,210,000	1,979,750	10,335,000	16,880,161	29,545,000	18,859,911	48,404,911
2028 – 2032	—	—	13,520,000	13,597,844	13,520,000	13,597,844	27,117,844
2033 – 2037	—	—	17,770,000	9,206,314	17,770,000	9,206,314	26,976,314
2038 – 2042	—	—	23,565,000	3,276,515	23,565,000	3,276,515	26,841,515
2043	—	—	5,560,000	—	5,560,000	—	5,560,000
Total principal and interest to maturity	53,550,000	$ 20,956,119	82,165,000	80,414,206	135,715,000	101,370,325	237,085,325
Unamortized portion of:							
Original issue premium	1,908,954		187,002		2,095,956		2,095,956
Less current portion of principal	(2,755,000)		—		(2,755,000)		(2,755,000)
Total long-term portion of revenue bonds payable	$ 52,703,954		82,352,002		135,055,956		236,426,281

(d) Pledged Revenues

The 2005 Bonds and 2012 Bonds are special obligations of the Authority payable solely from, and secured solely by a pledge of, the Net Revenues (operating revenue plus investment income on operating funds less operating expenses before depreciation) and amounts in certain funds established under the Master Indenture of Trust and the Debt Service Reserve Fund. The Authority covenants that the ratio of Net Pledged Revenues to net accrued debt service on parity obligations will be 1.25 or greater (coverage rate covenant) and that Net Revenues will equal or exceed the sum of net accrued debt service on parity obligations and required deposit to Debt Service Reserve, Operating Reserve and other accounts (general rate covenant). The computation of the coverage rate covenant and general rate covenant as of June 30, 2012 and 2011 are as follows:

		2012	2011
Net Revenues	$	8,847,941	12,790,324
Net Pledged Revenues	$	8,847,941	12,790,324
Accrued debt service on 2005 Bonds	$	5,416,638	5,420,438
Accrued debt service on 2012 Bonds		613,713	—
Less: capitalized interest for 2012 Bonds accrued debt service deposited from 2012 Bonds proceeds		(613,713)	—
Net accrued debt service on parity obligations	$	5,416,638	5,420,438
Ratio of Net Pledged Revenues to net accrued debt service on parity obligations		1.63	2.36
Net Revenues	$	8,847,941	12,790,324
Less: transfers to Operating Reserve		(172,953)	(365,785)
Less: net accrued debt service on parity obligations		(5,416,638)	(5,420,438)
Excess of net revenues over net accrued debt service on parity obligations and transfers to Operating Reserve	$	3,258,350	7,004,101

The estimated aggregate total amount of pledged net revenues and amounts in the funds established under the Master Indenture of Trust related to the 2005 Bonds and 2012 Bonds is equal to the remaining debt service on the 2005 Bonds and 2012 Bonds at June 30, 2012 of $237,085,325. The pledged revenues are in force during the term of the 2005 Bonds and 2012 Bonds with final maturity on July 1, 2042.

(7) Retirement Plan

The Authority previously provided pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. In April 2002, as part of an employment contract negotiated with the Authority, the employees elected to terminate their participation in the existing pension plan to participate in a SEP IRA program. The Authority terminated the existing plan effective June 30, 2002. The Authority continued to contribute 5% of the employee's eligible base salary each year to individual SEP IRA accounts to be managed at the employee's discretion.

Effective February 1, 2006, the Authority entered into a new employment contract which, among other things, called for the implementation of a 401(k) program sponsored by the Burbank-Glendale-Pasadena Airport Police Officers Association ("BGPAPOA") into which the Authority would contribute 6% of eligible base salaries as a retirement contribution. Employees may also contribute to their 401(k) account, but there is no additional Authority match. All employees are eligible to participate upon hire and contributions vest immediately. The BGPAPOA established its 401k Plan effective January 1, 2007. For periods prior to January 1, 2007, the Authority continued to contribute to individual SEP IRA accounts managed at the employee's discretion on an annual basis. Beginning January 1, 2007, the Authority contributed 6% of eligible base salary to the BGPAPOA 401k Plan as part of weekly payroll. Effective February 1, 2011, the Authority entered into a new employment contract with the same terms related to the 401(k) program and Authority retirement contribution.

The Authority's total salaries and benefits were $3,722,641 in FY 2012 and $3,340,203 in FY 2011. The Authority's contributions have been calculated using the base salary amount of $2,759,723 in FY 2012 and $2,482,440 in FY 2011. The Authority made the required accruals and contributions, amounting to $170,376 and $148,946 in fiscal years 2012 and 2011, respectively.

(8) Sound Insulation Programs

(a) School Sound Insulation Program

In FY 1989, the Authority adopted a FAA-approved multiyear school sound insulation program. Four schools were initially identified for the insulation program: Luther Burbank Middle School, Glenwood Elementary School, St. Patrick's School, and Mingay School. As of June 30, 2005, the sound insulation of these schools has been completed. In November 2000, the FAA approved the Authority's revised acoustical treatment program that added four additional schools. As of June 30, 2012, two of these additional schools have been completed. The Authority has applied for grant assistance to be supplemented with Passenger Facility Charge (PFC) funds.

(b) Residential Home Sound Insulation Program

As part of the Authority's efforts to achieve noise compatibility within Airport-adjacent communities, the Authority also initiated a residential home sound insulation program. The sound insulation program is funded through a combination of federal grant monies, Passenger Facility Charge funds, and Authority funds.

(Continued)

The Authority has entered into agreements with the FAA to provide funding assistance. The following sound insulation grant award agreements were outstanding during the years ended June 30, 2012 and 2011:

Date accepted	AIP grant number		Award Amount	Project description
August 2007	3-06-0031-44	$	7,000,000	Sound insulation of residences
June 2008	3-06-0031-45		3,000,000	Sound insulation of residences
February 2009	3-06-0031-47		7,000,000	Sound insulation of residences

During the year ended June 30, 2012, the Authority expended $7,099,900 on these projects, of which $5,524,064 was funded through FAA grants, $1,353,738 through PFC funds and $222,098 through Authority funds. The Authority acoustically treated approximately 263 residences during FY 2012 and an additional 99 are in progress at June 30, 2012. During the year ended June 30, 2011, the Authority expended $6,894,782 on these projects, of which $4,319,375 was funded through FAA grants, $2,317,859 through PFC funds and $257,548 through Authority funds. The Authority acoustically treated approximately 207 residences during FY 2011 and an additional 203 are in progress at June 30, 2011.

(9) Leases

The Authority leases land, terminal, hangar, and administrative facilities to various entities under operating leases. The cost of the Authority's leased property and the related accumulated depreciation by asset type is presented as of June 30, 2012 as follows:

		Cost	Accumulated depreciation
Land	$	28,773,504	—
Buildings and improvements		30,701,736	23,381,300
Runways and improvements		647,000	647,000
	$	60,122,240	24,028,300

The leases on such properties expire at various times, and generally terms are provided whereby lease terms may be extended.

Concession lease revenues are based on a percentage of gross receipts subject to minimum annual guarantees (MAG). Such concession rentals totaled $8,163,553 and $8,098,199 for the years ended June 30, 2012 and 2011, respectively, consisting of MAG revenues of $7,718,247 and $7,561,737, respectively, and over-MAG revenues of $445,306 and $536,462, respectively.

Minimum future rental revenue on noncancelable leases in effect at June 30, 2012 is as follows:

		Lease revenue
Fiscal year ending June 30:		
2013	$	24,557,284
2014		11,030,239
2015		12,388,170
2016		11,778,225
2017		10,359,653
2018 – 2022		46,782,785
2023 – 2027		28,126,058
2028 – 2032		1,545,392
	$	146,567,806

(10) Passenger Facility Charges

In June 1994, the FAA approved the Authority's application to collect a $3.00 Passenger Facility Charge (PFC) per enplaned passenger to provide funds for specifically approved airport improvement projects to begin September 1, 1994. Effective April 1, 2003, the FAA approved an increase of the charge from $3.00 to $4.50. PFC funds collected are restricted and may only be used on specifically approved facility improvement projects. All PFC funds collected are maintained in a separate interest-bearing account administered by the Authority prior to disbursement. Total PFC revenue for the years ended June 30, 2012 and 2011 totaled $8,989,090 and $9,642,916, respectively, including investment income on the PFC investment portfolio of $286,374 and $404,103, respectively. During the year ended June 30, 2012, funds totaling $4,705,725 for eligible costs expended on PFC projects were reimbursed to the Current Operating Fund from the PFC Fund. Of this amount, $1,335,449 was for sound insulation program expenditures, $964,412 was for the perimeter security infrastructure project, $630,857 was for the blast fence extension for Taxiway D, $429,984 for the Common Use Passenger Processing System (CUPPS) project and $1,345,023 was for other Airport development projects. During the year ended June 30, 2011, funds totaling $12,305,329 for eligible costs expended on PFC projects were reimbursed to the Current Operating Fund from the PFC Fund. Of this amount, $2,946,776 was for sound insulation program expenditures, $8,177,263 was for the Ramp Renovation project, $174,954 was for the CUPPS project and $1,006,336 was for other Airport facility development projects.

(11) Customer Facility Charges

Effective December 1, 2009, the Authority adopted a $10 Customer Facility Charge (CFC) per rental car transaction to provide for the planning, design, construction and financing of a consolidated rental car facility (CRCF) in accordance with California Civil Code Section 1936(m) et seq. Effective July 1, 2011 the Authority increased the CFC to $6 per rental car transaction day up to a maximum of five days. All CFC funds collected are maintained in a separate account administered by the Authority prior to disbursement. CFC revenue for the years ended June 30, 2012 and 2011 totaled $5,154,028 and $3,186,870, respectively. Cumulative eligible costs expended on the CRCF project, which have been reimbursed to the Current Operating Fund from the CFC Fund, totaled $1,105,186 at June 30, 2012.

(Continued)

(12) Related-Party Transactions

The Authority is charged for services and items from City of Burbank departments that are categorized in the various expense line items in the statements of revenues, expenses, and changes in net assets and are included in various capital assets for permits and related fees. The most significant are payments for utilities, City parking tax and permits and plan check fees.

The Airport is subject to a 12% tax on parking revenue payable to the City of Burbank on a quarterly basis. The Authority incurred parking tax expense totaling $2,130,146 and $2,157,963 during the years ended June 30, 2012 and 2011, respectively, of which $149,825 and $63,406 related to the $1 incremental parking revenue, respectively (see note 16). The Authority incurred utility expense for electricity, water and wastewater utilities from Burbank Water and Power during the years ended June 30, 2012 and 2011 totaling $1,927,209 and $1,900,310 (including amounts charged back to tenants of $288,606 and $278,876), respectively. The Authority paid permit and plan check fees totaling $989,094 and $220,915 during the years ended June 30, 2012 and 2011, respectively, the majority of which related to the RITC project.

The Authority is also charged for services from City of Glendale departments that are categorized in the various expense line items in the statements of revenues, expenses, and changes in net assets. The most significant are payments for Verdugo Fire Communications services (beginning September 2011) in the amount of $13,986.

(13) Commitments and Contingencies

(a) Litigation and Claims

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers' compensation; war risk and natural disasters for which the Authority carries commercial insurance, subject to deductibles ranging from $1,000 to $100,000. No settlements exceeded insurance coverage in the past three fiscal years, except for the Lockheed settlement (see note 16).

Several lawsuits and claims, arising in the normal course of Authority operations, and the items described below, were pending against the Authority at June 30, 2012. In the opinion of the Authority's management and legal counsel, there are adequate defenses to these actions, and the Authority's management and legal counsel do not anticipate material adverse effects on the financial position of the Authority from the disposition of these lawsuits and claims.

EPA Superfund Site Cleanup (North Hollywood Operable Unit)

See note 16, *Special Item – Environmental Litigation and Settlement.*

Clybourn Complex Hangar Floors

The hangar floors of eight hangars constructed between 1997 and 1999 located in the Clybourn Complex in the northwest corner of the Airport have experienced surface deterioration through blisters or "pop outs" caused by reactive aggregate. While this damage is superficial, not structural, it results in an unsightly appearance. The Authority, its insurer, the construction contractor of the hangars and other parties reached a settlement to claims filed by the Authority on this matter totaling

$2,223,219; such accumulated receipts, less cumulative payments of $1,299,073, are included in accounts payable and accrued expenses. The method, priority and schedule for repairs to the hangar floors have been negotiated between the Authority and the hangar tenants and repairs were begun in August 2011 and were substantially completed during FY 2012. The balance of receipts of approximately $918,000 is being retained for future hangar floor repairs.

(b) Contracted Services

The Authority has contracted with TBI Airport Management, Inc. (TBI) to perform certain airport administrative, maintenance, and operational services. The agreement expires June 30, 2018 with one ten-year option. Compensation under the agreement is based on a base management fee and reimbursement of operating costs, primarily salaries and benefits. A budget for TBI costs is prepared each year and is subject to review and approval as part of the Authority's annual budget process. The management fee is adjusted annually based on increases or decreases to certain operating costs. Costs incurred under the contract for the year ended June 30, 2012 and 2011 total $9,604,927 and $9,110,863, as follows:

		2012	2011
Contracted airport services	$	8,726,539	8,189,473
Capitalized to constructed capital assets		600,848	629,081
Sound insulation program		168,473	218,946
Other expenses		109,067	73,363
Total airport management contract costs	$	9,604,927	9,110,863

The Authority contracts with Pro-Tec Fire Services for aircraft rescue and firefighting services. The agreement expires October 31, 2013 with two one-year options. Minimum future commitments under this agreement are as follows:

Fiscal year ending June 30:		
2013	$	1,975,000
2014		666,667
	$	2,641,667

Effective February 10, 2012, The Authority contracted with Standard Parking for self-park management services, valet parking services and employee and customer busing service, with a base term through June 30, 2014 and two one-year option periods. Prior to this, the Authority contracted with Central Parking System for such services. Compensation under both contracts is based on a fixed management fee and reimbursement of operating costs. These costs are subject to review and approval as part of the Authority's annual budget process. Costs under the contracts for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Central Parking System	$ 4,844,076	6,861,672
Standard Parking	2,331,632	—
Total parking and busing contract costs	$ 7,175,708	6,861,672

(c) Construction Contracts

The Authority has contract commitments outstanding at June 30, 2012 for various construction contracts totaling $94,659,332, including $84,859,113 related to the RITC project. Subsequent to June 30, 2012, the Authority entered into additional construction contracts totaling $1,767,755 primarily related to a runway rehabilitation project, an ARFF building rehabilitation project and the RITC project.

(d) Federal Grants

As of June 30, 2012, the Authority had nonexpended, noncancelable grant commitments of $14,644,772 in federal funds of which $6,418,639 related to the sound insulation program, $562,933 related to the Part 150 noise compatibility study update, $1,553,726 related to runway safety area improvements for Runway 15 and 33, $396,130 related to ARFF Station rehabilitation, $300,000 related to perimeter security infrastructure and equipment, $3,973,231 related to the ground access study project, $1,400,434 related to Regional Intermodal Transportation Center project and $39,679 in asset forfeiture funds.

The Authority has been awarded various federal grants for noise mitigation, facility improvement and security equipment. Grants awarded, which are included in grant commitments above, and expenditures against those grants for the years ended June 30, 2012 and 2011, are as follows:

Award Date	Award Amount	Project description	Expenditures charged to grant 2012	Expenditures charged to grant 2011
August 2007	$ 7,000,000	Noise mitigation measures	$ 2,485,514	$ 4,019,805
June 2008	3,000,000	Noise mitigation measures	2,779,191	116,944
October 2008	3,778	Bulletproof vest	—	3,778
February 2009	7,000,000	Noise mitigation measures	259,359	182,626
July 2009	632,191	ARFF vehicle	496,231	10,770
July 2009	275,000	Airport roadway security infr.	274,085	—
March 2010	604,425	Runway shoulder rehabilitation	—	596,465
June 2010	275,000	Fiberoptic ring/perimeter security	254,520	—
July 2010	115,244	Runway shoulder rehabilitation	—	31,469
July 2010	4,387,000	Ground access study	354,529	59,240
March 2011	964,270	Runway 15 safety areas	949,479	14,791
March 2011	550,000	RITC	—	—
May 2011	936,675	RITC (five grants transferred from City of Burbank)	86,241	—
Sept. 2011	728,120	Runway 15 safety areas	411,728	—
Sept. 2011	483,550	ARFF Station rehabilitation	87,420	—
Sept. 2011	805,900	Part 150 noise compatibility study	242,967	—
August 2012	1,289,440	Runway 33 safety areas	52,106	—
Various	272,767	Asset forfeiture funds	100,367	132,721

On August 2, 2012, the FAA awarded the Authority a grant in the amount of $1,289,440 for improvements of the Runway 33 safety areas. The grant included certain eligible expenditures of the Authority incurred on or prior to June 30, 2012, included above. On September 18, 2012, the City of Los Angeles awarded the Authority a pass-through grant of the Department of Homeland Security Urban Areas Security Initiative grant program in the amount of $254,261 for perimeter security equipment and infrastructure.

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies. While no matters of noncompliance were disclosed by the audit of the financial statements or single audit of the federal grant programs which resulted in disallowed costs, grantor agencies may subject grant programs to additional compliance tests, which may result in disallowed costs. In the opinion of management, the Authority has complied with provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

(14) Airport Development Agreement

The Authority and the City of Burbank have entered into a multiyear agreement (the Development Agreement) clarifying permitted development and uses within the Airport Zone, as defined by the City of Burbank Municipal Code, on the Airport property for the term of the agreement and determining the uses and/or disposition of certain land during the term of the Development Agreement.

Under its original terms, the Development Agreement was to expire seven years after June 21, 2005, the date the Authority gave notice of its A-1 North Property fee title acquisition to the City. Pursuant to the Development Agreement, the Authority agreed to not (i) build or announce plans for a new Passenger Terminal, (ii) expand square footage of the existing Passenger Terminal (with certain exceptions for security related improvements), (iii) expand the general aviation area beyond an area specified in the Development Agreement, or (iv) increase the number of gates at the Airport beyond 14. The Authority's agreement to not build or announce plans for a new Passenger Terminal is effective for ten years. Also pursuant to the Development Agreement, the Authority has a vested right to develop the Airport in accordance with the City of Burbank zoning, development and land use regulations in effect at the time the Development Agreement was executed, except as clarified in the Development Agreement. Such permitted uses include (i) aircraft fabrication, testing, and servicing, (ii) aircraft landing fields for aircraft and helicopters, and runways and control towers, (iii) air passenger facilities and accessory uses, including airport related vehicle parking, and (iv) personal wireless telecommunication service facilities. The Development Agreement also contains provisions for the continuation of an already existing "Noise Working Group" and an "Airport Land Use Working Group." The Development Agreement may (with the mutual approval of the signatories to the Agreement) be amended under certain circumstances, and the Development Agreement may be amended or terminated if the FAA or a court renders a decision that would make it impossible or impractical for the Authority to comply with the Development Agreement.

Based on a recommendation of the Airport Land Use Working Group, the Authority and the City agreed to an extension of the Development Agreement to March 15, 2015, and revised the agreement to permit seeking public input on the future vision of the airport, which may include a new or relocated passenger terminal and transit-oriented development on the B-6 Trust Property. This Development Agreement amendment was approved by the Authority via Resolution No. 443 adopted on August 1, 2011, and approved by the City via Ordinance No. 3819 adopted on September 13, 2011.

(15) Regional Intermodal Transportation Center

On August 24, 2010, the City of Burbank approved entitlements and minor amendments to the Development Agreement to permit the Authority to proceed with the Regional Intermodal Transportation Center (RITC) project to be located in the southeast corner of the A-1 North Property. This project will include a transportation center linking the Airport with the Metrolink/Amtrak Bob Hope Airport train station immediately south of the Airport, local and regional bus service, and other mass transit transportation in the Authority's continuing efforts to promote alternative access to the Airport. The RITC will also include a consolidated rental car facility (CRCF) which will consolidate the rental car operations at the Airport, relocate the ready-return facility that is currently partially located in the Runway 33 runway safety area and eliminate over 700,000 annual trips on Empire Avenue of rental cars traveling between the ready return lot and the current service center facilities used for the washing and fueling of the rental cars on the southwest quadrant of the Airport. The CRCF will be funded in part from Customer Facility Charge (CFC) fees established December 1, 2009, as amended, and residual rent fees from the rental car companies, as required. An elevated covered moving sidewalk will accommodate pedestrian travel between the RITC and the terminal, but will not be physically connected to the terminal building. The Authority has begun discussions with the City of Burbank's Burbank Water and Power Department (BWP) that would allow installation by BWP of solar power panels on the roof of the RITC to provide an alternate energy source for the community. A publicly accessible consolidated natural gas (CNG) fueling facility to be developed and operated under a ground development lease is also planned to promote use of alternate fuel vehicles.

On May 25, 2011, the Authority opened bids from eight prequalified contractors for construction of the RITC. Those bids, ranging from $159 million to $187 million, significantly exceeded the $120 million construction budget for the RITC included in the Plan of Finance. On June 20, 2011, the Authority rejected all of the bids and the Board of Commissioners directed Authority Staff to look at redesigning and re-programming the RITC to reduce its cost to meet the construction budget while still achieving all of the goals and objectives of the Authority for this facility. On August 1, 2011, the Authority approved redesign services and went back out to bid for the redesigned project on November 10, 2011 for the Replacement Parking Structure (RPS) and January 13, 2012 for the balance of the project. .

The Authority opened bids from seven prequalified contractors for the construction of the design-build Replacement Parking Structure on January 10, 2012 with the low bid of $8,496,000, and opened bids from five prequalified contractors for the construction of the balance of the RITC project on March 22, 2012 with a low bid of $72,683,000. The Authority approved these construction contracts for the RITC on May 14, 2012 and issued notices to proceed on May 21, 2012.

On April 23, 2012, the Authority approved the revised Plan of Finance with an estimated cost of $112.6 million, as well as the form of non-exclusive on-airport rental car lease and concession agreement.

On May 10, 2012, the Authority issued $82,165,000 of 2012 Airport Revenue Bonds in order to finance the CRCF and the portion of the costs of the RPS attributable to the parking spaces displaced by the CRCF (see note 6).

Costs of Phase 1 of the RITC project, estimated at $112.6 million, are to be funded from 2012 Revenue Bonds and CFCs through the construction period ($81.6 million), PFCs ($16.2 million), federal grants ($1.5 million) and Authority investment from the Facility Development Fund ($10.1 million) and a loan from the Authority to the rental car companies for contingency, if used ($3.2 million). The replacement parking structure is expected to be completed in August 2013 and the balance of the RITC project is expected to be completed in September 2014.

(16) Special Item – Environmental Litigation and Settlement

In January 2010, the Authority received a letter from the U.S. Environmental Protection Agency (EPA) indicating that the Agency intended to name the Authority as one of approximately 30 parties designated under the federal Superfund law (CERCLA) as “potentially responsible parties” (PRPs) for the second interim remedy at the North Hollywood Operable Unit (NHOU). The second interim remedy was estimated by EPA to cost approximately $108 million. This was a preliminary estimate that was made without benefit of a detailed engineering analysis of the exact components of the proposed remedy. Thus, the actual remediation costs could vary considerably from EPA’s estimate. In July 2010, the Authority received a letter from the EPA formally designating the Authority as a “potentially responsible party” and requested that the Authority, together with other named PRPs, form a group and submit a good faith settlement offer to EPA to undertake the work required for the second interim remedy. The July 2010 letter also contained a demand by EPA for payment of certain of its past costs incurred in the NHOU and a portion of the collective San Fernando Valley Superfund Sites that the EPA calculated to be approximately $13 million.

Separately, the Authority filed a lawsuit, *Burbank-Glendale-Pasadena Airport Authority v. Lockheed Martin Corporation*, No. CV 10-2392 MRP (ANx) in the United States District Court for the Central District of California (Indemnification Action). That lawsuit claimed that Lockheed Martin Corporation owed the Authority a contractual duty to defend and indemnify against the EPA's current claims. The Authority based its claims principally upon a written indemnification provision in the 1978 Airport Purchase Agreement executed by it and by Lockheed. Lockheed answered the complaint, denying the material allegations thereof and asserting various affirmative defenses.

The Authority settled its lawsuit with Lockheed Martin Corporation by written agreement on February 22, 2011. The written settlement agreement provided that the Authority pay to Lockheed Martin Corporation the sum of $2,000,000 over two years, with the second installment due in January 2012. In exchange, Lockheed Martin Corporation agreed to defend and indemnify the Authority for certain settled matters, including all response costs in connection with the second interim remedy for the North Hollywood Operable Unit asserted by EPA or by any other PRP against either or both Lockheed Martin Corporation and the Authority.

Included in the Special Item for the years ended June 30, 2012 and 2011 are the costs of the settlement totaling $0 and $2 million and legal costs related to the EPA and Lockheed matters totaling $797 and $878,795, respectively.

Effective February 1, 2011, the Authority implemented a rate increase of $1 per day to all parking charges, the proceeds of which are to be used to fund the EPA and Lockheed legal and settlement costs, including $514,854 incurred in FY 2010. Incremental parking revenues totaling $1,248,545 and $528,383 for the years ended June 30, 2012, and 2011, respectively, net of the related 12% City of Burbank parking tax on such incremental parking revenues totaling $149,825 and $63,406, respectively, are not included in parking revenues but, rather, are included in the Special Item until the legal and settlement costs noted above are fully recovered.