

**BURBANK-GLENDALE-PASADENA
AIRPORT AUTHORITY**

Basic Financial Statements

June 30, 2010 and 2009

(With Independent Auditor's
Report Thereon)

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Basic Financial Statements

June 30, 2010 and 2009

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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, 2010 and 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2010 and 2009 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 22, 2010 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 for the year ended June 30, 2010. 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.

Management's discussion and analysis on pages 3 to 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
November 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

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, 2010 and 2009. 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, 2010 and 2009 by \$445,348,933 and \$432,280,415, respectively. Of this amount, \$130,128,587 and \$111,145,744, 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 \$13,068,518 and \$18,429,365 in the fiscal years ended June 30, 2010 and 2009, respectively.
- The Authority's net capital assets decreased by \$4,646,182 in Fiscal Year (FY) 2010 and increased by \$5,261,485 in FY 2009. Significant additions in FY 2010 include rehabilitation of parking lots B and E, phase II of the digital video surveillance system (DVSS) project, replacement radio console system, blade server and SAN system, Taxilane B repaving, runway guard lights system, Taxiways C, D and G rehabilitation, and construction in progress on the common use passenger processing system (CUPPS) and the Regional Intermodal Transportation Center (RITC) projects.

Significant additions in FY 2009 include acquisition of two UHF frequencies for public safety radio communications, completion of the Terminal B EDS baggage inspection facility and conveyors, Terminal A baggage claim facility upgrades and conveyors, Taxiway A rehabilitation, engineered material arresting system (EMAS) widening; phase I of the digital video surveillance system (DVSS) project, Parking Lot C rehabilitation, airport entrance overhead sign, fiber optic backbone, radio communications

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equipment and facility upgrades, access control system equipment, a replacement ARFF Light Rescue Vehicle and construction in progress on the runway guard lights and Taxiway C, D & G rehabilitation projects.

- Total operating revenues generated during FY 2010 decreased by \$3,032,498, or 6.1%, from FY 2009. This decrease is primarily the result of lower parking, landing fee and concession revenues resulting from a 6.4% decrease in passengers. The falling demand is a direct impact of the national economic recession. Total operating expenses in FY 2010 increased by \$3,001,145 or 6.5%, over FY 2009. This increase is primarily the result of increases in depreciation expense related to capital asset additions, increases in contracted airport services related to cost of living adjustments and additional airport management staffing and increases in professional services related to legal fees for the EPA/Lockheed suits, offset by a decrease in City of Burbank parking taxes resulting from the decline in parking revenues. The FY 2010 operating and capital budget was developed anticipating the continuing impact of the national economic recession. This resulted in a balanced budget without use of Authority reserves.
- Total operating revenues generated during FY 2009 decreased by \$5,538,484, or 10.1%, from FY 2008. This decrease is primarily the result of lower parking, landing fee and concession revenues resulting from a 17.4% decrease in passengers. The falling demand is a direct impact of the national economic recession. Total operating expenses in FY 2009 increased by \$2,853,820 or 6.6%, over FY 2008. This increase is primarily the result of increases in depreciation expense related to capital asset additions. Excluding depreciation, operating expenses were held to a 3.6% increase, primarily the result of additional payments for contracted services related to the airport management and parking operations, offset by a decrease in City of Burbank parking taxes resulting from the decline in parking revenues. The FY 2009 operating and capital budget was developed anticipating the impact of the national economic recession. This resulted in a balanced budget without use of Authority reserves.
- In FY 2010, total passengers declined from FY 2009 by 6.4% as a consequence of the continuing national economic recession. In FY 2009, total passengers declined from FY 2008 by 17.4% as a consequence of the national economic recession. The Airport remained focused on maintaining efficient passenger processing, matching the timing of capital programs to alternate funding sources, upgrading infrastructure, and implementing security requirements.
- Operational Results:
 - Passenger traffic levels in FY 2010 totaled 4,515,713, representing a 6.4% decrease from FY 2009 levels. The decrease in passenger traffic levels resulted from the continuing impact of the national economic recession and reduction of airline capacity to meet the reduced demand. Passenger traffic levels in FY 2009 totaled 4,823,781, representing a 17.4% decrease from FY 2008 levels.
 - The Airport was served during FY 2010 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.
 - The Airport was served during FY 2009 by eight signatory carriers: Alaska Airlines, American Airlines, U.S. Airways, Delta Air Lines, JetBlue Airways, SkyWest Airlines (which operates Delta Connection and United Express), Southwest Airlines, and United Airlines.

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- The Airport's ability to maintain its passenger traffic levels and/or attain any future passenger development is contingent on the recovery of the airline industry and decisions by airline management to provide air service at Bob Hope Airport to meet aviation 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 such as the terrorist attacks on September 11, 2001. Due to impacts on airlines of falling demand as a result of the continuing national economic recession and continued high fuel costs, passenger levels in the quarters ended September 30, 2009, December 31, 2009, March 31, 2010 and June 30, 2010 declined 14.3%, 3.5%, 2.1% and 4.2%, respectively, from the same periods in FY 2009. The impact of the national economic recession on the airline industry and passenger activity is expected to continue in FY 2011.
- During FY 2010, the Airport continued its residential sound insulation program and acoustically treated approximately 135 residences and an additional 112 are in progress at June 30, 2010. During FY 2009, the Airport acoustically treated approximately 186 residences and an additional 23 were in progress at June 30, 2009. 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 \$8 million in May 2005, \$12.8 million in August 2006, \$7 million in August 2007, \$3 million in June 2008, and an additional \$7 million was awarded in February 2009.
- On November 2, 2009, the Federal Aviation Administration disapproved the Authority's FAR Part 161 application to impose a full night-time curfew at Bob Hope Airport.

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Schedule of Net Assets

A summary of the Airport's net assets as of June 30, 2010, 2009 and 2008 is shown below:

Schedule of Net Assets							
	2010	2009	2008	FY 2010/09		FY 2009/08	
				increase (decrease)		increase (decrease)	
				Amount	%	Amount	%
Assets:							
Current unrestricted assets	\$ 30,983,974	30,527,347	28,009,804	456,627	1.5%	\$ 2,517,543	9.0%
Restricted assets	109,055,103	112,954,531	111,147,104	(3,899,428)	(3.5)	1,807,427	1.6
Facility Development Reserve	106,000,000	88,000,000	80,000,000	18,000,000	20.5	8,000,000	10.0
Bond issuance costs	796,698	889,515	982,331	(92,817)	(10.4)	(92,816)	(9.4)
Capital assets, net	270,350,054	274,996,236	269,734,751	(4,646,182)	(1.7)	5,261,485	2.0
Total assets	517,185,829	507,367,629	489,873,990	9,818,200	1.9	17,493,639	3.6
Liabilities:							
Current liabilities	9,464,548	10,133,502	8,595,110	(668,954)	(6.6)	1,538,392	17.9
Liabilities payable from restricted assets	3,974,930	3,918,412	3,868,408	56,518	1.4	50,004	1.3
Noncurrent liabilities	58,397,418	61,035,300	63,559,422	(2,637,882)	(4.3)	(2,524,122)	(4.0)
Total liabilities	71,836,896	75,087,214	76,022,940	(3,250,318)	(4.3)	(935,726)	(1.2)
Net assets:							
Invested in capital assets, net of related debt	210,219,334	212,430,451	205,243,922	(2,211,117)	(1.0)	7,186,529	3.5
Restricted, debt service	16,663,919	16,256,518	15,767,035	407,401	2.5	489,483	3.1
Restricted, capital projects	88,337,093	92,447,702	90,831,558	(4,110,609)	(4.4)	1,616,144	1.8
Unrestricted	130,128,587	111,145,744	102,008,535	18,982,843	17.1	9,137,209	9.0
Total net assets	\$ 445,348,933	432,280,415	413,851,050	13,068,518	3.0	\$ 18,429,365	4.5

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 \$445,348,933, \$432,280,415 and \$413,851,050 at the close of FY 2010, FY 2009, and FY 2008, respectively.

The largest portion of the Authority's net assets (47.2%, 49.1% and 49.6% at June 30, 2010, 2009, and 2008, 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 (23.6%, 25.1% and 25.8% at June 30, 2010, 2009, and 2008, respectively) represents resources that are subject to external restrictions on how they may be used.

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Management's Discussion and Analysis

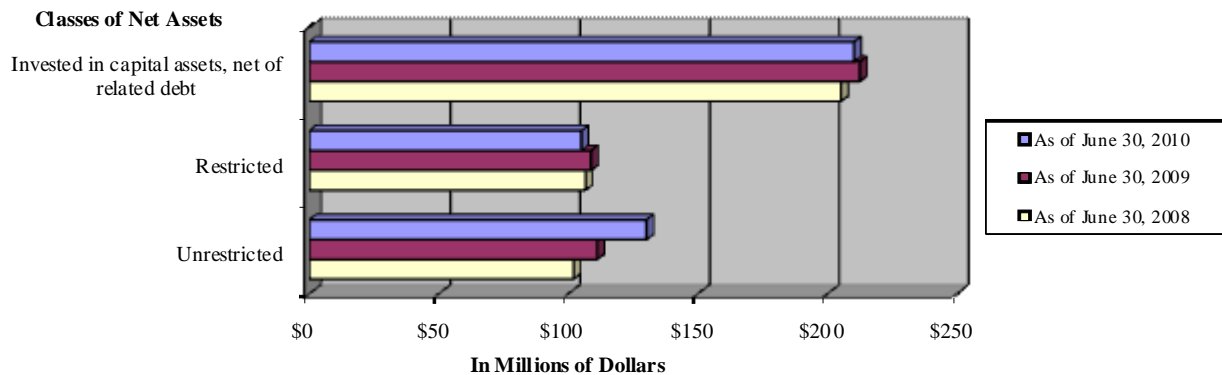
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Of these restricted net assets, 15.9%, 15.0% and 14.8% are for repayment of long-term debt and 84.1%, 85.0%, 85.2% are for construction of capital assets at June 30, 2010, 2009 and 2008, respectively.

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, 2010, 2009 and 2008 is net assets committed by Authority Resolution for engine repowerment of shuttle buses of \$700,000.

Net Assets as of June 30, 2010, 2009, and 2008



As of June 30, 2010, the Authority is able to report positive balances in all three categories of net assets. The same situation held true as of June 30, 2009 and 2008.

Current Unrestricted Assets

The Authority's current unrestricted assets increased by \$456,627, or 1.5%, in FY 2010 primarily resulting from net operating revenues, offset by decreased interest receivables and decreased grant receivables from accrued qualifying grant expenditures. Current unrestricted assets increased by \$2,517,543, or 9.0%, in FY 2009 primarily resulting from net operating revenues, a settlement received related to the hangar floors and increased grant receivables from accrued qualifying grant expenditures, offset by decreased interest receivables. \$18 million and \$8 million were transferred during FY 2010 and FY 2009, respectively, from the Current Operating Fund to the Facility Development Reserve.

Restricted Assets

The Authority's restricted assets decreased by \$3.9 million, or 3.5%, in FY 2010. The decrease in restricted assets includes an increase of \$164,216 in the Debt Service Fund and Debt Service Reserve Fund related to the 2005 Airport Revenue Bonds, an increase of \$189,703 in the Operating Reserve Fund, a decrease of \$4,740,711 in the Passenger Facility Charge (PFC) Fund, an increase of \$292,894 in the Customer Facility Charge (CFC)

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Fund, a decrease of \$71,607 in PFC receivables, an increase of \$360,390 in CFC receivables, and a decrease of \$226,666 in accrued interest related to other restricted cash and investment funds. The increase in the Debt Service and Debt Service Reserve funds relates to debt service requirements and accumulated interest earnings. The increase in 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 based on a corresponding increase in that budget for FY 2010. 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, 2010, 2009, and 2008 totaled \$10,291,366, \$11,035,756 and \$13,717,413, respectively, including interest and changes in fair value in the PFC Fund of \$649,043, \$1,370,788 and \$1,583,573, respectively. During the fiscal year ended June 30, 2010, funds totaling \$15,168,837 for eligible costs expended on PFC projects were reimbursed to the Current Operating Fund from the PFC Fund. Of this amount, \$1,715,544 was for sound insulation program expenses and \$13,453,293 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 (currently \$10 per rental car transaction). 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 year ended June 30, 2010 totaled \$1,755,750 and funds totaling \$1,105,186 for eligible CRCF costs were reimbursed to the Current Operating Fund from the CFC Fund.

The Authority's restricted assets increased by \$1.8 million, or 1.6%, in FY 2009. The increase in restricted assets includes a decrease of \$406,262 in the Construction Fund – 2005 Bonds, a \$520,091 increase in the Operating Reserve Fund, an increase of \$1,174,018 in the PFC Fund and an increase of \$383,744 in PFC receivables. The Construction Fund – 2005 Bonds account (established during FY 2005) consisted of bond proceeds dedicated to provide for the future improvements to the A-1 North Property and other parking improvements. During the fiscal year ended June 30, 2009, funds totaling \$9,571,099 for eligible costs expended on PFC projects were reimbursed to the Current Operating Fund from the PFC Fund. Of this amount, \$1,355,379 was for sound insulation program expenses and \$8,215,720 for facility improvement project expenses.

Facility Development Reserve

Cash and investments – Facility Development Reserve increased \$18 million, or 20.5%, in FY 2010 and \$8 million, or 10.0%, in FY 2009. 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 selected facility development projects will be determined based on the approval of the Authority. \$18 million and \$8 million were transferred during FY 2010 and FY 2009, respectively, to the Facility Development Reserve from current operating funds.

Capital Assets

The Authority's net capital assets decreased \$4,646,182, or 1.7%, in FY 2010 and \$5,261,485, or 2.0%, in FY 2009. FY 2010 additions to capital assets of \$11.1 million include rehabilitation of parking lots B and E, phase II of the digital video surveillance system (DVSS) project, replacement radio console system, blade server and SAN system, Taxiway B repaving, runway guard lights system, Taxiways C, D and G rehabilitation, and construction in progress on the common use passenger processing system (CUPPS) and the Regional Intermodal

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Transportation Center (RITC) projects. FY 2010 deletions include depreciation of \$15.7 million and other deletions of \$98,781 (net of accumulated depreciation of \$4.0 million) including prior paving of Parking Lots B and E, radio console system and prior Taxiway B and C paving.

FY 2009 additions to capital assets of \$19.9 million include acquisition of two UHF frequencies for public safety radio communications, completion of the Terminal B EDS baggage inspection facility and conveyors, Terminal A baggage claim facility upgrades and conveyors, Taxiway A rehabilitation, engineered material arresting system (EMAS) widening; phase I of the digital video surveillance system (DVSS) project, Parking Lot C rehabilitation, airport entrance overhead sign, fiber optic backbone, radio communications equipment and facility upgrades, access control system equipment, a replacement ARFF Light Rescue Vehicle and construction in progress on the runway guard lights and Taxiway C, D & G rehabilitation projects. FY 2009 deletions include depreciation of \$14.6 million and other deletions of \$16,908 (net of accumulated depreciation of \$0.8 million) including prior Terminal A baggage claim and Taxiway A, B, C, D and service road improvements and the prior ARFF light rescue vehicle.

Current Liabilities

Current liabilities decreased \$0.7 million, or 6.6%, in FY 2010. The decrease results from an increase in vendor accruals primarily related to various capital projects of \$116,418, an increase in salaries and benefits payable of \$79,753, and an increase in customer deposits of \$19,561; offset by a decrease in unearned revenue related to tenant rents paid in advance of \$884,686.

Current liabilities increased \$1.5 million, or 17.9%, in FY 2009. The increase results from an increase in vendor accruals primarily related to various capital projects of \$159,206, an increase in the settlement amount for the hangar floors of \$823,219, an increase in salaries and benefits payable of \$57,983, an increase in unearned revenue related to tenant rents paid in advance of \$493,755 and an increase in customer deposits of \$4,229.

Liabilities Payable from Restricted Assets

Liabilities payable from restricted assets increased by \$56,518, or 1.4%, in FY 2010 and \$50,004, or 1.3%, in FY 2009. The increase in FY 2010 reflects a net increase of \$110,000 in the current portion of long-term debt related to the 2005 Airport Revenue Bonds, offset by a decrease of \$53,482 in interest payable on the 2005 Airport Revenue Bonds.

The increase in FY 2009 reflects a net increase of \$100,000 in the current portion of long-term debt related to the 2005 Airport Revenue Bonds, offset by a decrease of \$49,996 in interest payable on the 2005 Airport Revenue Bonds.

Noncurrent Liabilities

Noncurrent liabilities decreased by \$2,637,881, or 4.3%, in FY 2010 and \$2,524,122, or 4.0%, in FY 2009. These decreases represent the reclassification of \$2,530,000 in FY 2010 and \$2,420,000 in FY 2009 of the 2005 Airport Revenue Bonds to current portion of long-term debt and annual amortization of original issue premium and deferred amounts on refunding on the 2005 Airport Revenue Bonds totaling \$107,881 in FY 2010 and \$104,122 in FY 2009.

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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, 2010, 2009 and 2008:

	Schedule of Revenues, Expenses, and Changes in Net Assets						
	FY 2010	FY 2009	FY 2008	FY 2009/10		FY 2008/09	
				increase (decrease)		increase (decrease)	
	Amount	Amount	Amount	%	%	Amount	%
Operating revenues	\$ 46,377,417	49,409,915	54,948,399	(3,032,498)	(6.1)%	\$ (5,538,484)	(10.1)%
Operating expenses	49,343,276	46,342,131	43,488,311	3,001,145	6.5	2,853,820	6.6
Operating income	(2,965,859)	3,067,784	11,460,088	(6,033,643)	(196.7)	(8,392,304)	(73.2)
Nonoperating revenues, net	10,588,549	10,752,045	15,032,256	(163,496)	(1.5)	(4,280,211)	(28.5)
Income before contributions	7,622,690	13,819,829	26,492,344	(6,197,139)	(44.8)	(12,672,515)	(47.8)
Capital contributions	5,445,828	4,609,536	12,399,329	836,292	18.1	(7,789,793)	(62.8)
Changes in net assets	13,068,518	18,429,365	38,891,673	(5,360,847)	(29.1)	(20,462,308)	(52.6)
Total net assets – beginning of year	432,280,415	413,851,050	374,959,377	18,429,365	4.5	38,891,673	10.4
Total net assets – end of year	\$ 445,348,933	432,280,415	413,851,050	13,068,518	3.0	\$ 18,429,365	4.5

Traffic Activities

Commercial aircraft operations (takeoffs and landings) and landed weight reflect decreases during FY 2010 of 6.1% and 7.7%, respectively. Cargo tonnage, transported primarily by Federal Express and United Parcel Service, increased 6.9% in FY 2010. Aircraft operations (takeoffs and landings) and landing weight increased 7.1% and 10.7%, respectively, during FY 2009. Cargo tonnage decreased 2.9% in FY 2009.

Total passenger levels decreased by 6.4% and 17.4% in FY 2010 and FY 2009, 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 2010, FY 2009 and FY 2008:

Description	Comparative Traffic Activities				
	FY 2010	FY 2009	FY 2008	% increase (decrease)	
				FY 2009/10	FY 2008/09
Commercial carrier flight operations (takeoffs and landings)	63,730	67,836	72,982	(6.1)%	(7.1)%
Landing weight (in pounds)	3,493,028,279	3,785,565,016	4,240,335,729	(7.7)	(10.7)
Total enplaned and deplaned passengers	4,515,713	4,823,781	5,841,021	(6.4)	(17.4)
Cargo tonnage (in tons)	46,863	43,835	45,151	6.9	(2.9)

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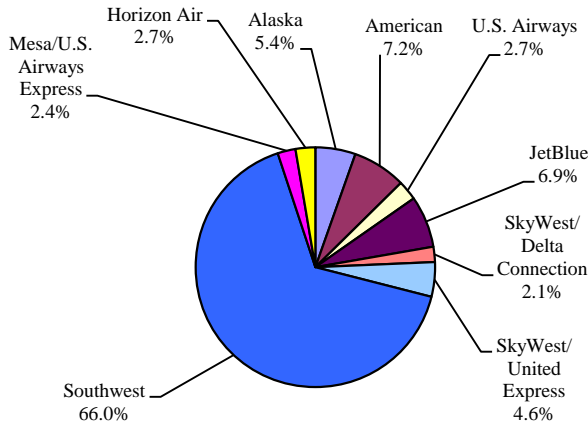
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Illustrated below is the passenger traffic share by airline for fiscal years ended June 30, 2010 and 2009:

Total Passengers by Air Carrier – FY 2010

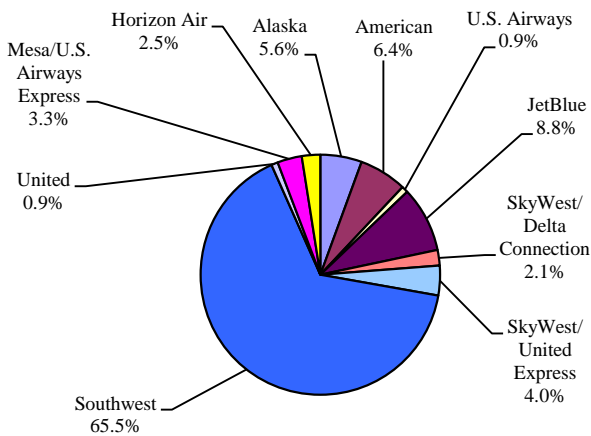


<u>Air Carrier</u>	<u>Number of Passengers</u>
Alaska Airlines	245,100
American Airlines	325,409
JetBlue Airways	313,713
SkyWest Airlines:	
Delta Connection	93,108
United Express	209,234
Southwest Airlines	2,978,621
U.S. Airways	121,031
Mesa – U.S. Airways Express	109,093
Horizon Air	120,404
Total Passengers	4,515,713

**** Note:**

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

Total Passengers by Air Carrier – FY 2009



<u>Air Carrier</u>	<u>Number of Passengers</u>
Alaska Airlines	270,216
American Airlines	309,445
JetBlue Airways	424,686
SkyWest Airlines:	
Delta Connection	101,443
United Express	192,751
Southwest Airlines	3,161,398
U.S. Airways	41,850
United Airlines	42,595
Mesa – U.S. Airways Express	159,111
Horizon Air	120,286
Total Passengers	4,823,781

**** Note:**

Delta Air Lines service is provided by Delta Connection operated by SkyWest Airlines.

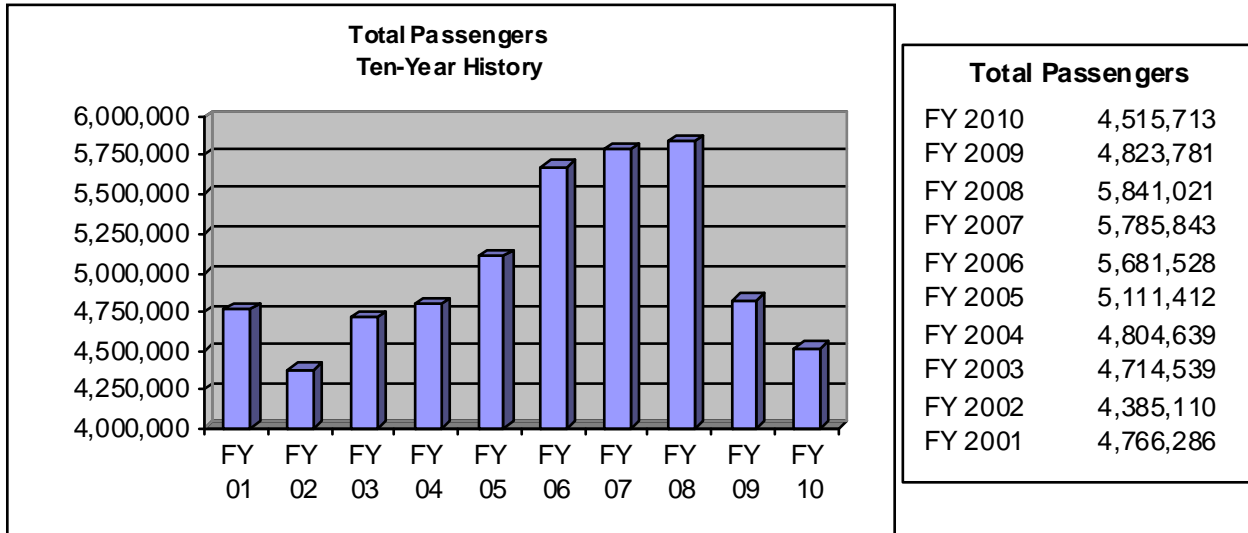
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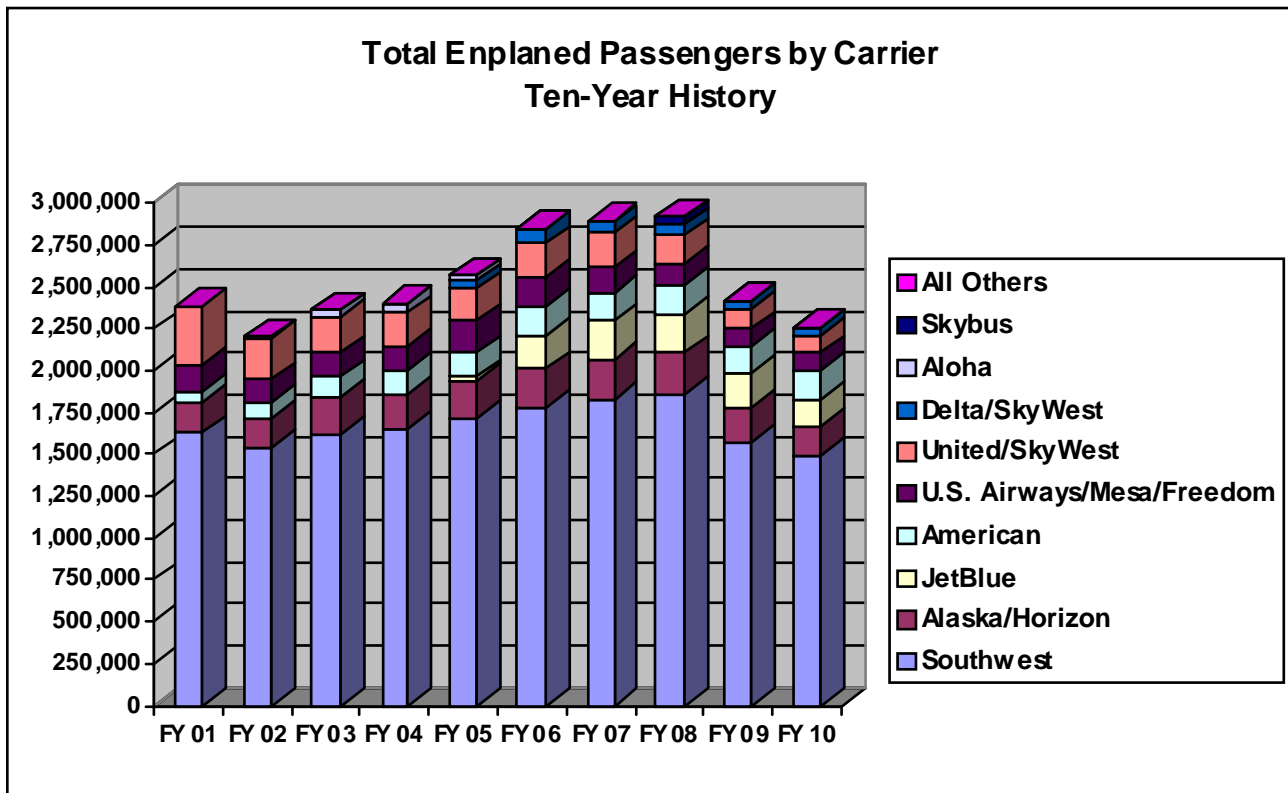
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Illustrated below is a ten-year history of total passengers:



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



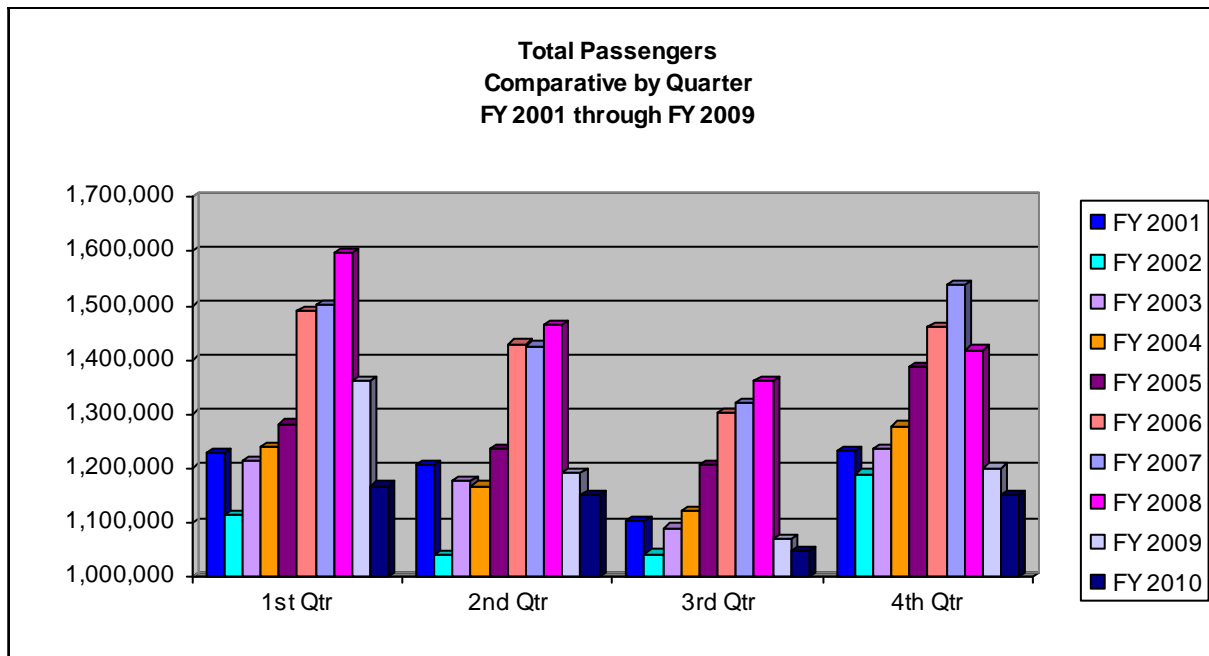
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Management's Discussion and Analysis

June 30, 2010 and 2009

(Unaudited)

Illustrated below is a comparison, by quarter, of passenger activity for FY 2001 through FY 2010.



	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total Passengers
FY 2001	1,227,496	1,205,401	1,102,083	1,231,306	4,766,286
FY 2002	1,113,270	1,040,676	1,041,397	1,189,767	4,385,110
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

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.

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Management's Discussion and Analysis

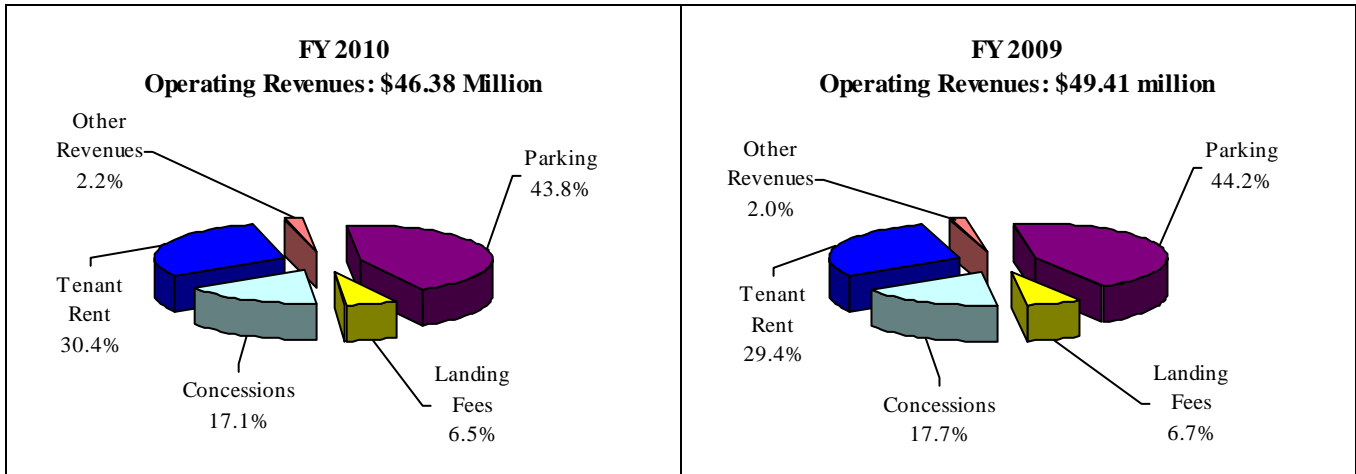
June 30, 2010 and 2009

(Unaudited)

The following table illustrates a comparative summary of operating revenues in FY 2010, FY 2009 and FY 2008:

	Comparative Summary of Operating Revenues						
	FY 2010	FY 2009	FY 2008	FY 2009/10		FY 2008/09	
				increase (decrease)		increase (decrease)	
	Amount			Amount	%	Amount	%
Parking	\$ 20,331,286	21,820,676	25,979,666	(1,489,390)	(6.8)%	\$ (4,158,990)	(16.0)%
Landing fees	2,996,230	3,299,103	3,660,367	(302,873)	(9.2)	(361,264)	(9.9)
Concessions	7,944,325	8,744,001	10,004,525	(799,676)	(9.1)	(1,260,524)	(12.6)
Tenant rent	14,072,543	14,553,636	14,079,164	(481,093)	(3.3)	474,472	3.4
Other operating revenues	1,033,033	992,499	1,224,677	40,534	4.1	(232,178)	(19.0)
Total operating revenues	\$ 46,377,417	49,409,915	54,948,399	(3,032,498)	(6.1)	\$ (5,538,484)	(10.1)

The charts below illustrate the distribution of major sources of operating revenues in FY 2009 and FY 2008:



Total operating revenue decreased by \$3,032,498, or 6.1%, during FY 2010. Parking revenues decreased by \$1,489,390, or 6.8%. This resulted from decreased passengers and reduced air carrier activity from the impacts of the national economic recession. Concession revenues decreased by \$799,676, or 9.1%, also impacted by decreased passengers and reduced air carrier activity, including rental cars (a 10.4% decrease), food/beverage (a 7.0% decrease), gift/news (a 6.2% decrease) and advertising (a 7.5% decrease). Landing fees decreased by \$302,873, or 9.2%, primarily due to decreased number of landing aircraft and changes for some operations to smaller aircraft. Tenant rent decreased by \$481,093, or 3.3%, from contractual increases in existing leases (CPI adjustments) of \$49,627, a full year of increase in a ground lease upon completion of a Leadership in Energy and Environmental Design award hangar (Avjet) of \$110,959; offset by partial leasehold takebacks of FBO operators Atlantic Aviation and Million Air of \$473,599. Other operating revenues increased by \$40,534, or 4.1%, primarily because of an increase in fuel flowage fees of \$37,312.

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Total operating revenue decreased by \$5,538,484, or 10.1%, during FY 2009. Parking revenues decreased by \$4,158,990, or 16.0%. This resulted from decreased passengers and reduced air carrier activity from the impacts of the national economic recession, and a small decrease in valet parking activity offset by an increase in self-park activity. Concession revenues decreased by \$1,260,524, or 12.6%, also impacted by decreased passengers and reduced air carrier activity, including rental cars (a 12.0% decrease), food/beverage (a 13.6% decrease), gift/news (a 14.6% decrease) and advertising (a 14.8% decrease). Landing fees decreased by \$361,264, or 9.9%, primarily due to decreased number of landing aircraft and changes for some operations to smaller aircraft. Tenant rent increased by \$474,472, or 3.4%, from contractual increases in existing leases (CPI adjustments), and increase in a ground lease upon completion of a Leadership in Energy and Environmental Design award hangar (Avjet). Other operating revenues decreased by \$232,178, or 19.0%, primarily because of a decrease in fuel flowage fees of \$139,074.

Operating Expenses

The following illustrates a comparative summary of operating expenses in FY 2010, FY 2009 and FY 2008:

Operating Expenses Summary							
	FY 2010	FY 2009	FY 2008	FY 2009/10		FY 2008/09	
				increase (decrease)		increase (decrease)	
				Amount	%	Amount	%
Contracted airport services	\$ 14,453,670	13,589,267	12,450,097	864,403	6.4%	\$ 1,139,170	9.1%
Salaries and benefits	2,953,126	2,715,539	2,404,859	237,587	8.7	310,680	12.9
Financial services	703,075	735,512	766,120	(32,437)	(4.4)	(30,608)	(4.0)
Rescue services	1,741,667	1,646,610	1,569,447	95,057	5.8	77,163	4.9
Repairs and maintenance, materials and supplies	4,987,357	4,443,354	4,373,986	544,003	12.2	69,368	1.6
Utilities	1,609,350	1,630,023	1,554,835	(20,673)	(1.3)	75,188	4.8
Professional services	2,769,555	2,322,905	2,399,846	446,650	19.2	(76,941)	(3.2)
Insurance	1,433,007	1,449,439	1,478,264	(16,432)	(1.1)	(28,825)	(1.9)
Other operating expenses	3,012,593	3,197,059	3,622,367	(184,466)	(5.8)	(425,308)	(11.7)
Operating expenses before depreciation	33,663,400	31,729,708	30,619,821	1,933,692	6.1	1,109,887	3.6
Depreciation	15,679,876	14,612,423	12,868,490	1,067,453	7.3	1,743,933	13.6
Total operating expenses	\$ 49,343,276	46,342,131	43,488,311	3,001,145	6.5	\$ 2,853,820	6.6

Total operating expenses increased by \$3,001,145, or 6.5%, in FY 2010 from a combination of factors, as follows: (1) increased depreciation expense (increase of \$1,067,453) resulting from placing \$10.1 million of capital assets in service, as previously described, and a full year depreciation of capital assets placed in service in FY 2009; (2) additional contracted airport services costs (increase of \$864,403) related to cost of living adjustment and filling open positions for Airport Manager staff; (3) increased salaries and benefits costs for airport police officers (increase of \$237,587) as open positions were filled; increased professional services (increase of \$446,650 primarily related to EPA/Lockheed legal expenses; offset by (4) decreased other operating costs (decrease of \$184,466) consisting primarily of decreased parking taxes to the City of Burbank reflecting the decline in parking revenues.

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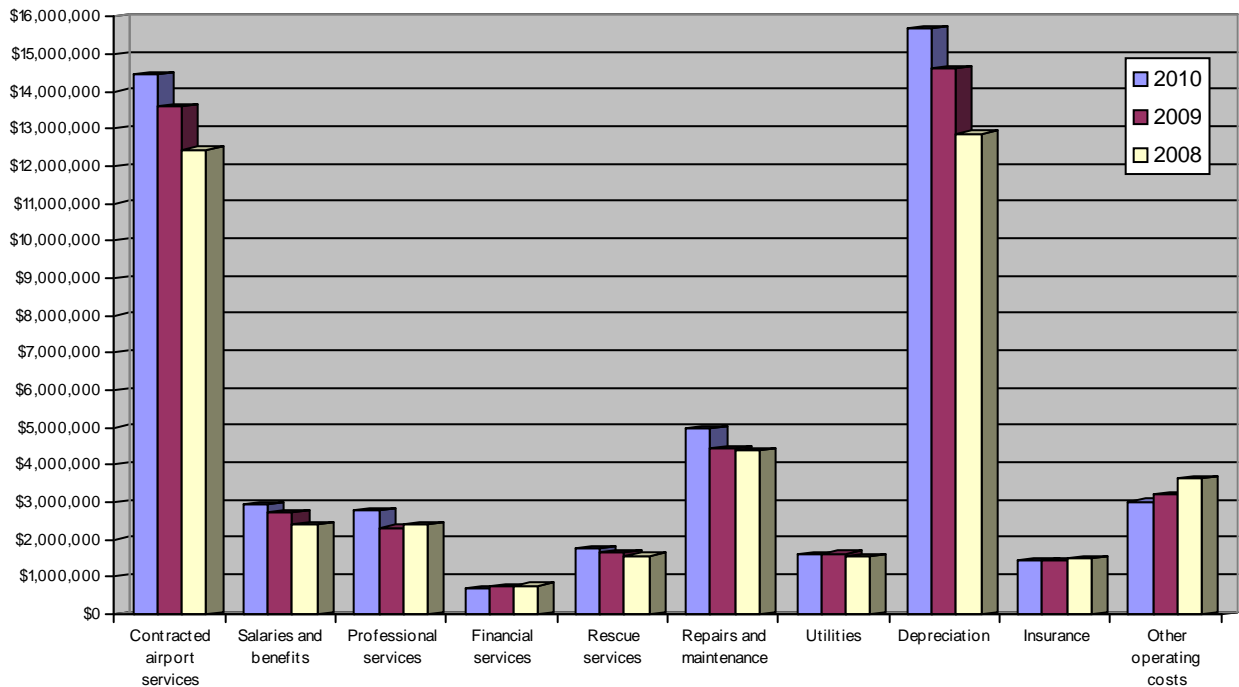
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Total operating expenses increased by \$2,853,820, or 6.6%, in FY 2009 from a combination of factors, as follows: (1) increased depreciation expense (increase of \$1,743,933) resulting from placing \$19.9 million of capital assets in service, as previously described, and a full year depreciation of capital assets placed in service in FY 2008; (2) additional contracted airport services costs (increase of \$1,139,170) related to increased cost to operate public parking lots and cost of living adjustment and filling open positions for Airport Manager staff; (3) increased salaries and benefits costs for airport police officers (increase of \$310,680) as open positions were filled; offset by (4) decreased other operating costs (decrease of \$425,308) consisting primarily of decreased parking taxes to the City of Burbank reflecting the decline in parking revenues.

Operating Expenses
Years ended June 30, 2010, 2009 and 2008



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Management's Discussion and Analysis

June 30, 2010 and 2009

(Unaudited)

Nonoperating Revenues and Expenses

The following summary illustrates a comparison of nonoperating revenues and expenses in FY 2010, FY 2009 and FY 2008:

Comparative Summary of Nonoperating Revenues and Expenses							
	FY 2010	FY 2009	FY 2008	FY 2009/10		FY 2008/09	
				increase (decrease)		increase (decrease)	
				Amount	%	Amount	%
Nonoperating revenues:							
Passenger Facility Charge (PFC) revenues	\$ 10,291,366	11,035,756	13,717,413	(744,390)	(6.7)%	\$ (2,681,657)	(19.5)%
Customer Facility Charge (CFC) revenues	1,755,750	—	—	1,755,750	N/A	—	N/A
Investment income	4,210,575	4,649,823	6,943,958	(439,248)	(9.4)	(2,294,135)	(33.0)
FAA and other grants	3,828,715	5,716,446	5,186,318	(1,887,731)	(33.0)	530,128	10.2
	<u>20,086,406</u>	<u>21,402,025</u>	<u>25,847,689</u>	<u>(1,315,619)</u>	(6.1)	<u>(4,445,664)</u>	(17.2)
Nonoperating expenses:							
Interest expense	2,850,515	2,955,440	2,803,796	(104,925)	(3.6)	151,644	5.4
Sound insulation program	6,109,511	7,102,086	6,637,451	(992,575)	(14.0)	464,635	7.0
Other	537,831	592,454	1,374,186	(54,623)	(9.2)	(781,732)	(56.9)
	<u>9,497,857</u>	<u>10,649,980</u>	<u>10,815,433</u>	<u>(1,152,123)</u>	(10.8)	<u>(165,453)</u>	(1.5)
Total nonoperating revenues (expenses), net	<u>\$ 10,588,549</u>	<u>10,752,045</u>	<u>15,032,256</u>	<u>(163,496)</u>	(1.5)	<u>\$ (4,280,211)</u>	(28.5)

Nonoperating revenues of \$20,086,406 in FY 2010 and \$21,402,025 in FY 2009 consist of PFC receipts; CFC receipts; investment income, net of amounts capitalized of \$2,122 and \$2,565 in 2010 and 2009, respectively; and FAA sound insulation and other non-capital grants. PFC revenue decreased in FY 2010 due to the decline in passenger traffic and reduced investment income on the PFC Fund and decreased in FY 2009 due to the decline in passenger traffic offset by investment income on the PFC Fund. CFC revenue increased in FY 2010 due to the implementation of the CFC on December 1, 2009 for funding of the CRCF. Investment income decreased in FY 2010 as interest rates fell, offsetting increased invested cash, and decreased in FY 2009 as interest rates fell, offsetting increased invested cash from the prior year. FAA sound insulation grant revenues decreased in FY 2010 and increased in FY 2009 because of related changes in sound insulation program costs and multifamily units reimbursed primarily with PFC revenues.

Nonoperating expenses of \$9,497,857 and \$10,649,980 in FY 2010 and FY 2009, respectively, include \$6,109,511 and \$7,102,086, respectively, associated with the Airport's residential and school sound insulation program. These costs decreased in FY 2010 by \$992,575, or 14.0%, because of a decrease in the number of residences insulated offset by an increase in residences in progress during the year, including multifamily residences. 135 residences were acoustically treated in FY 2010 and 112 are in progress at June 30, 2010. The Authority received grant commitments from the FAA for noise insulation of \$8 million in May 2005, \$12.8 million in August 2006, \$7 million in August 2007, \$3 million in June 2008 and \$7 million in February 2009. Costs for this program increased in FY 2009 by \$464,635, or 7.0%, because of an increase in the

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Management's Discussion and Analysis

June 30, 2010 and 2009

(Unaudited)

number of residences insulated and in progress during the year. 186 residences were acoustically treated in FY 2009 and 23 are in progress at June 30, 2009. Interest expense of \$2,850,515 and \$2,955,440, net of capitalized interest of \$24,281 and \$30,079, in FY 2010 and FY 2009, respectively, consists of interest expense and related amortization of bond issue costs, deferred amount on refunding and original issue premium on the 2005 Airport Revenue Bonds totaling \$2,874,796 and \$2,985,519 in FY 2010 and FY 2009, respectively. Other expenses include \$184,215 and \$582,938 in FY 2010 and FY 2009, respectively, for the Part 161 Study, a process established under the Airport Noise and Capacity Act of 1990 (ANCA) to seek approval from the FAA to implement mandatory limitations of certain flight operations, nighttime noise mitigation costs of \$261,120 in FY 2010 to meet the Authority's ongoing commitment to seek meaningful nighttime noise relief to residences surrounding the airport, and net losses on retirement of capital assets of \$92,496 and \$9,516 in FY 2010 and FY 2009, respectively.

Capital Contributions

Capital contributions amounting to \$5,445,828 and \$4,609,536 were recorded during FY 2010 and FY 2009, respectively. In FY 2010 these amounts represent an American Recovery and Reinvestment Act (ARRA) grant awarded through the FAA for the Taxiway C, D and G Rehabilitation project of \$3,317,221, and FAA airport improvement program grants for the Runway Guard Lights project of \$2,117,607, Aircraft Rescue and Firefighting (ARFF) Truck acquisition of \$3,040 and Runway Shoulder Rehabilitation project of \$7,960. In FY 2009 these amounts represent an ARRA grant awarded through the FAA for the Taxiway C, D and G Rehabilitation project of \$629,055, and FAA airport improvement program grants for the Taxiway A Rehabilitation project of \$3,781,835 and the Runway Guard Lights project of \$198,646.

Capital Assets

Additions to capital assets in FY 2010 and FY 2009 consisted of \$10.1 million and \$19.9 million, respectively.

Significant capital asset additions in FY 2010 include:

- Parking Lot B rehabilitation
- Parking Lot E rehabilitation
- Phase II of the digital video surveillance system (DVSS)
- Replacement radio console system
- Blade server and SAN system
- Taxiway B repaving
- Runway guard light system
- Taxiways C, D and G rehabilitation
- Construction projects in progress on the Common Use Passenger Processing System (CUPPS) and Regional Intermodal Transportation Center (RITC) projects.

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Significant capital asset additions in FY 2009 include:

- Acquisition of two UHF frequencies for public safety radio communications
- Terminal B EDS baggage inspection facility and conveyors
- Terminal A baggage claim facility upgrades and conveyors
- Taxiway A rehabilitation
- Engineered Material Arresting System (EMAS) widening
- Phase I of the digital video surveillance system (DVSS)
- Parking Lot C rehabilitation
- Airport entrance overhead sign
- Fiber optic backbone
- Radio communications equipment and facility upgrades
- Access control system equipment
- A replacement ARFF Light Rescue Vehicle
- Construction projects in progress on the runway guard lights and Taxiway C, D & G rehabilitation projects.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital assets:			
Land	\$ 156,923,796	156,923,796	156,923,796
Other non-depreciable capital assets	589,966	589,966	—
Buildings and improvements	129,619,952	129,322,739	121,716,572
Runways and improvements	83,702,945	79,467,528	70,635,665
Machinery and equipment	31,841,547	30,470,943	22,542,095
Construction in progress	4,543,304	3,461,223	9,370,885
Less accumulated depreciation	<u>(136,871,456)</u>	<u>(125,239,959)</u>	<u>(111,454,262)</u>
Total capital assets, net	\$ <u>270,350,054</u>	<u>274,996,236</u>	<u>269,734,751</u>

The Authority has contract commitments outstanding at June 30, 2010 for various construction contracts totaling \$4,914,490. Subsequent to June 30, 2010, the Authority entered into additional construction contracts totaling \$9,767,887 primarily related to the runway guard lights project and the residential acoustical treatment program.

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

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Management's Discussion and Analysis

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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 a net effective interest rate of 4.680%. 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 and represent the only outstanding bonded debt issue at June 30, 2010 and 2009. The 2005 Bonds are insured by Ambac, whose ratings have steadily deteriorated. In July 2009 Moody's Investors Service and Standard and Poor's downgraded Ambac to Caa2 and CC, respectively. However, the underlying ratings of the 2005 Bonds remain stable and are as follows: Standard and Poor's at A+, Moody's Investors Service at Aa3, and Fitch Ratings at AA-. Moody's Investors Service upgraded its underlying rating on the 2005 Bonds from A1 to Aa3 in March 2008 and affirmed its rating in April 2009 and June 2010. Standard and Poor's affirmed its rating in November 2008 and March 2010. Fitch Ratings affirmed its rating in February 2010. The outstanding balance of 2005 Bonds at June 30, 2010 is \$58,720,000, plus unamortized original issue premium of \$2,207,418, for a net total amount outstanding for this issue of \$60,927,418. Principal payments on the 2005 Bonds of \$2,420,000 and \$2,320,000 were made July 1, 2009 and 2008, respectively. The current portion of 2005 Bonds at June 30, 2010 is \$2,530,000.

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 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 current zoning of Airport property remains unchanged for seven years and allows aviation facilities to be developed consistent with that zoning. Further, the agreement defers 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.

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(Unaudited)

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 currently located in a 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 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) regarding a significant 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 will also be developed which will permit the Authority to repower its fleet of diesel buses and promote use of alternate fuel vehicles.

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

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Net Assets

June 30, 2010 and 2009

Assets	2010	2009
Current unrestricted assets:		
Cash and investments – current operating fund (note 3)	\$ 28,322,961	27,047,767
Grants receivable	722,946	1,067,702
Accounts receivable, net of allowance of \$19,314 and \$40,019 in 2010 and 2009, respectively	794,265	894,222
Accrued interest receivable	1,075,858	1,441,348
Prepaid expenses	67,944	76,308
Total current unrestricted assets	30,983,974	30,527,347
Current restricted assets:		
Cash and investments (note 3):		
Cash and investments with trustee:		
Debt Service Fund – 2005 Bonds	3,974,931	3,918,412
Debt Service Reserve Fund – 2005 Bonds	5,528,135	5,420,438
Total cash and investments with trustee	9,503,066	9,338,850
Other restricted cash and investments:		
Operating Reserve Fund	8,605,784	8,416,081
Authority Areas Reserve	2,393,358	2,309,430
Asset Forfeiture Fund	235,414	186,989
Passenger Facility Charge Fund	27,116,212	31,856,923
Customer Facility Charge Fund	292,894	—
Total other restricted cash and investments	38,643,662	42,769,423
Total restricted cash and investments	48,146,728	52,108,273
Passenger Facility Charge receivables (note 10)	1,458,673	1,530,280
Customer Facility Charge receivables (note 11)	360,390	—
Accrued interest receivable, restricted funds	215,803	442,469
Total current restricted assets	50,181,594	54,081,022
Noncurrent restricted assets – Trust Assets (note 4)	58,873,509	58,873,509
Total restricted assets	109,055,103	112,954,531
Bond issuance costs, net (note 6)	796,698	889,515
Cash and investments – Facility Development Reserve (note 3)	106,000,000	88,000,000
Capital assets (notes 5 and 9):		
Land	156,923,796	156,923,796
Other nondepreciable capital assets	589,966	589,966
Construction in progress	4,543,304	3,461,223
Buildings and improvements	129,619,952	129,322,739
Runways and improvements	83,702,945	79,467,528
Machinery and equipment	31,841,547	30,470,943
Less accumulated depreciation	(136,871,456)	(125,239,959)
Total capital assets, net	270,350,054	274,996,236
Total assets	517,185,829	507,367,629

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Statements of Net Assets

June 30, 2010 and 2009

Liabilities	2010	2009
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,553,199	8,436,781
Salaries and benefits payable	408,320	328,567
Unearned revenue	317,870	1,202,556
Customer deposits	185,159	165,598
Total current liabilities	9,464,548	10,133,502
Liabilities payable from restricted assets:		
Current portion of long-term debt (note 6)	2,530,000	2,420,000
Accrued interest payable	1,444,930	1,498,412
Total liabilities payable from restricted assets	3,974,930	3,918,412
Long-term debt, net of current portion (note 6):		
Revenue bonds payable, less current portion	56,190,000	58,720,000
Original issue premium, net	2,207,418	2,356,651
Deferred amount on refunding, net	—	(41,351)
Total long-term liabilities	58,397,418	61,035,300
Total liabilities	71,836,896	75,087,214
Net Assets		
Invested in capital assets, net of related debt	210,219,334	212,430,451
Restricted:		
Debt service	16,663,919	16,256,518
Capital projects	88,337,093	92,447,702
Unrestricted	130,128,587	111,145,744
Total net assets	\$ 445,348,933	432,280,415

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Charges for services:		
Parking	\$ 20,331,286	21,820,676
Landing fees	2,996,230	3,299,103
Concessions	7,944,325	8,744,001
Tenant rent	14,072,543	14,553,636
Fuel flowage fees	541,732	504,420
Other operating revenues	491,301	488,079
Total operating revenues	<u>46,377,417</u>	<u>49,409,915</u>
Operating expenses (note 11):		
Contracted airport services	14,453,670	13,589,267
Salaries and benefits	2,953,126	2,715,539
Financial services	703,075	735,512
Rescue services	1,741,667	1,646,610
Materials and supplies	368,912	343,828
Repairs and maintenance	4,618,445	4,099,526
Utilities	1,609,350	1,630,023
Professional services	2,769,555	2,322,905
Insurance	1,433,007	1,449,439
Other operating expenses	3,012,593	3,197,059
Total operating expenses before depreciation	<u>33,663,400</u>	<u>31,729,708</u>
Operating income before depreciation	12,714,017	17,680,207
Depreciation (note 5)	<u>15,679,876</u>	<u>14,612,423</u>
Operating income (loss)	<u>(2,965,859)</u>	<u>3,067,784</u>
Nonoperating revenues (expenses):		
Passenger Facility Charge revenue, including interest on the Passenger Facility Charge Fund of \$649,043 and \$1,370,788 in 2010 and 2009, respectively (note 10)	10,291,366	11,035,756
Customer Facility Charge revenue (note 11)	1,755,750	—
Investment income, net of \$2,122 and \$2,565 capitalized in 2010 and 2009, respectively	4,210,575	4,649,823
Interest expense, net of \$24,281 and \$30,079 capitalized in 2010 and 2009, respectively	(2,850,515)	(2,955,440)
Loss on retirement of capital assets	(92,496)	(9,516)
Sound insulation program (note 8)	(6,109,511)	(7,102,086)
Federal Aviation Administration grants, sound insulation program (note 8)	3,547,167	5,592,635
Other noncapital federal grants	281,548	123,811
Other expenses, net	(445,335)	(582,938)
Total nonoperating revenues, net	<u>10,588,549</u>	<u>10,752,045</u>
Income before capital contributions	7,622,690	13,819,829
Capital contributions	<u>5,445,828</u>	<u>4,609,536</u>
Changes in net assets	13,068,518	18,429,365
Total net assets – beginning of year	<u>432,280,415</u>	<u>413,851,050</u>
Total net assets – end of year	\$ <u><u>445,348,933</u></u>	<u><u>432,280,415</u></u>

See accompanying notes to basic financial statements.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from airline carriers, tenants, and others	\$ 45,633,916	50,048,465
Cash paid to suppliers of goods and services	(28,587,929)	(26,279,981)
Cash paid for employees' services	(2,874,277)	(2,661,299)
Cash paid for parking taxes to the City of Burbank	(2,162,315)	(2,409,816)
Cash paid for other nonoperating expenses –		
Part 161 study and nighttime noise mitigation	(460,737)	(653,281)
Cash (paid to) received from settlement – hangar floors	(29,179)	823,219
Net cash provided by operating activities	<u>11,519,479</u>	<u>18,867,307</u>
Cash flows from noncapital financing activities:		
Sound insulation program	(5,208,093)	(7,086,191)
FAA grants, sound insulation program	3,246,390	5,627,501
Other noncapital federal grants received	281,548	123,811
Net cash used in noncapital financing activities	<u>(1,680,155)</u>	<u>(1,334,879)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(11,766,450)	(19,993,880)
Proceeds from sale of capital assets	6,285	7,393
Principal paid on revenue bonds	(2,420,000)	(2,320,000)
Interest paid on revenue bonds	(2,943,343)	(3,046,821)
Passenger Facility Charge program receipts	9,661,521	9,333,631
Customer Facility Charge program receipts	1,398,080	—
Capital contributions received	6,091,361	4,064,397
Net cash provided by (used in) capital and related financing activities	<u>27,454</u>	<u>(11,955,280)</u>
Cash flows from investing activities:		
Interest received on investments, including interest received in the Passenger Facility Charge Fund of \$791,592 and \$1,404,784 in 2010 and 2009, respectively	4,330,552	6,683,167
Purchases of investments not considered cash equivalents	(133,286,073)	(54,460,568)
Proceeds from the sale or maturity of investments not considered cash equivalents	116,817,292	42,501,838
Net cash used in investing activities	<u>(12,138,229)</u>	<u>(5,275,563)</u>
Net increase (decrease) in cash and cash equivalents	(2,271,451)	301,585
Cash and cash equivalents, beginning of year	<u>21,007,342</u>	<u>20,705,757</u>
Cash and cash equivalents, end of year	\$ <u><u>18,735,891</u></u>	<u><u>21,007,342</u></u>

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (2,965,859)	3,067,784
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,679,876	14,612,423
Other noncash operating expenses, net	30,620	11,543
Other nonoperating expenses	(445,335)	(582,938)
Changes in assets and liabilities:		
Accounts receivable	99,957	162,170
Prepaid expenses	8,364	(13,055)
Accounts payable and accrued expenses	(102,772)	1,053,413
Salaries and benefits payable	79,753	57,983
Unearned revenue	(884,686)	493,755
Customer deposits	19,561	4,229
Net cash provided by operating activities	<u>\$ 11,519,479</u>	<u>18,867,307</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Operating fund	\$ 28,322,961	27,047,767
Restricted cash and investments	48,146,728	52,108,273
Facility Development Reserve	106,000,000	88,000,000
Cash, cash equivalents, and investments	<u>182,469,689</u>	<u>167,156,040</u>
Investments not considered cash equivalents	<u>(163,733,798)</u>	<u>(146,148,698)</u>
Cash and cash equivalents, end of year (note 3)	<u>\$ 18,735,891</u>	<u>21,007,342</u>
Summary of significant noncash investing and financing activities:		
Amortization of bond issuance costs, premiums, and deferred amounts on refunding	\$ (15,065)	(11,306)
Change in fair value of investments	1,123,344	(655,629)
Change in capital assets acquired by accounts payable	(654,148)	(117,683)
Change in sound insulation program from accounts payable	901,419	15,895
Capitalized interest expense, net	22,159	27,514

See accompanying notes to basic financial statements.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

(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 peace 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.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

(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 \$210,219,334 and \$212,430,451 at June 30, 2010 and 2009, 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 \$16,663,919 and \$16,256,518 at June 30, 2010 and 2009, respectively. Net assets restricted for capital projects totaled \$88,337,093 and \$92,447,702 at June 30, 2010 and 2009, respectively, including \$28,574,885 and \$33,387,203, respectively, restricted by enabling legislation for the passenger facility charge program and \$653,284 and \$0, respectively, restricted by enabling legislation for the customer facility charge program.
- *Unrestricted* – This component of net assets, totaling \$130,128,587 and \$111,145,744 at June 30, 2010 and 2009, 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, 2010 and 2009 is net assets committed by Authority Resolution for engine repowerment of shuttle buses of \$700,000.

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

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

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, 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, law 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 also receives grants from the U.S. Department of Homeland Security for certain security-related 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 \$10.00 per rental car transaction, 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.

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Notes to Basic Financial Statements

June 30, 2010 and 2009

(h) *Revenues and Cash Accounts*

All revenues, except Passenger Facility Charges and Customer Facility Charges, are deposited in a revenue account 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, 2010 and 2009, there was no balance in the Rebate Fund.
- **Debt Service Fund** – Bond interest currently payable is deposited to this account monthly prior to each semiannual payment. Currently payable bond principal is transferred to this account monthly prior to each annual payment. This cash fund is held by a trustee who pays the bond interest and principal when due.
- **Debt Service Reserve Fund** – 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, is to be held by the trustee in this fund 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, 2010 and 2009, 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 \$5,420,438 and \$5,420,438, respectively. The balance in the Debt Service Reserve Fund at June 30, 2010 and 2009 is \$5,528,135 and \$5,420,438, respectively.
- **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, 2010 and 2009 is \$8,605,784 and \$8,416,081, 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, 2010 and 2009, 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 Fund 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, 2010 and 2009, there was no balance in the Reserve and Contingency Fund.

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- **Surplus Fund** – All monies remaining in the Revenue Account 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, 2010 and 2009, there was no balance in the Surplus Fund to be transferred to any of the funds mentioned above.
- **Cost of Issuance Fund** – The balance in this fund provides for the payment of costs to issue the 2005 Bonds not paid directly from escrow at the closing of the sale of the 2005 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, 2010 and 2009, there was no balance in the Cost of Issuance Fund.
- **Construction Fund** – 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. 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, 2010 and 2009, there is no balance in the Construction Fund.

(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.

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Notes to Basic Financial Statements

June 30, 2010 and 2009

(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, 2010, interest cost of \$24,281 less interest income of \$2,122 was capitalized. During the year ended June 30, 2009, interest cost of \$30,079 less interest income of \$2,565 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 20 years
Machinery and equipment	3 to 20 years

(k) Vacation and Sick Leave

Employees may receive 10 to 20 days of vacation each year, depending on length of service with the Authority. Vacation is not earned until the year is completed. An employee may accrue up to 25 days of vacation; any days earned in excess of 25 days are forfeited, unless approved by management.

Employees are also entitled to eight days of personal leave during each year. 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 80 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

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Notes to Basic Financial Statements

June 30, 2010 and 2009

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, government-sponsored investment pools, and other similar investments is stated at share value. 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 initial 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.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

(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, 2010, 2009 or 2008.

(r) *Recent Accounting Pronouncements*

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes standards for accounting and financial reporting for intangible assets, for all state and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. The Authority implemented the provisions of GASB 51 effective July 1, 2009 and there was no impact on the Authority's basic financial statements for the year ended June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The Authority implemented the provisions of GASB 53 effective July 1, 2009 and there was no impact on the Authority's basic financial statements for the year ended June 30, 2010

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

(3) Cash and Investments

(a) Cash and Investments

(i) Cash and investments at June 30, 2010 and 2009 are classified in the accompanying statements of net assets as follows:

	<u>2010</u>	<u>2009</u>
Cash and investments – current assets:		
Operating fund	\$ 28,322,961	27,047,767
Cash and investments – restricted assets:		
Cash and investments held by bond trustee:		
Debt service fund – 2005 Bonds	3,974,931	3,918,412
Debt service reserve fund – 2005 Bonds	<u>5,528,135</u>	<u>5,420,438</u>
Total cash and investments held by bond trustee	<u>9,503,066</u>	<u>9,338,850</u>
Other restricted cash and investments:		
Operating Reserve fund	8,605,784	8,416,081
Authority Areas Reserve fund	2,393,358	2,309,430
Asset Forfeiture fund	235,414	186,989
Passenger Facility Charge fund	27,116,212	31,856,923
Customer Facility Charge fund	<u>292,894</u>	<u>—</u>
Total other restricted cash and investments	<u>38,643,662</u>	<u>42,769,423</u>
Total cash and investments – restricted assets	48,146,728	52,108,273
Cash and investments – Facility Development Reserve	<u>106,000,000</u>	<u>88,000,000</u>
Total cash and investments	\$ <u><u>182,469,689</u></u>	<u><u>167,156,040</u></u>

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

(ii) Cash and investments as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Operating portfolio cash and investments:		
Cash and cash equivalents:		
Cash on hand	\$ 800	800
Deposits with financial institutions	510,659	1,526,541
Money market mutual funds	1,252,699	1,706,380
State Treasurer's Local Agency Investment Fund	<u>16,125,590</u>	<u>14,926,239</u>
Total cash and cash equivalents	<u>17,889,748</u>	<u>18,159,960</u>
Investments:		
U.S. Treasury securities	56,206,085	37,573,936
U.S. Agency securities	42,051,232	49,578,923
Medium-term corporate notes	<u>29,410,452</u>	<u>20,647,448</u>
Total investments	<u>127,667,769</u>	<u>107,800,307</u>
Total cash and cash equivalents and investments	145,557,517	125,960,267
Less restricted portion	(11,234,556)	(10,912,500)
Less Facility Development Reserve	<u>(106,000,000)</u>	<u>(88,000,000)</u>
Current and unrestricted cash and investments	<u>\$ 28,322,961</u>	<u>27,047,767</u>
Passenger Facility Charge Fund:		
Cash and cash equivalents:		
Deposits with financial institutions	\$ 65,886	44,250
Money market mutual funds	<u>487,363</u>	<u>2,803,132</u>
Total cash and cash equivalents	<u>553,249</u>	<u>2,847,382</u>
Investments:		
U.S. Treasury securities	11,526,155	9,262,131
U.S. Agency securities	8,421,784	13,441,840
Medium-term corporate notes	<u>6,615,024</u>	<u>6,305,570</u>
Total investments	<u>26,562,963</u>	<u>29,009,541</u>
Total cash and cash equivalents and investments	<u>\$ 27,116,212</u>	<u>31,856,923</u>
Customer Facility Charge Fund:		
Deposits with financial institutions	<u>\$ 292,894</u>	<u>—</u>
Investments held by bond trustee:		
Money market mutual funds	\$ 4,082,960	3,918,419
U.S. Agency securities	<u>5,420,106</u>	<u>5,420,431</u>
Total investments	<u>\$ 9,503,066</u>	<u>9,338,850</u>

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Summary of cash and investments:		
Cash and cash equivalents:		
Cash on hand	\$ 800	800
Deposits with financial institutions	869,439	1,570,791
Money market mutual funds	1,740,062	4,509,512
State Treasurer's Local Agency Investment Fund	<u>16,125,590</u>	<u>14,926,239</u>
Total cash and cash equivalents	<u>18,735,891</u>	<u>21,007,342</u>
Investments:		
U.S. Treasury securities	67,732,240	46,836,067
U.S. Agency securities	55,893,122	68,441,194
Medium-term corporate notes	36,025,476	26,953,018
Money market mutual funds held by bond trustee	<u>4,082,960</u>	<u>3,918,419</u>
Total investments	<u>163,733,798</u>	<u>146,148,698</u>
Total cash and cash equivalents and investments	<u>\$ 182,469,689</u>	<u>167,156,040</u>

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.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

(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.

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio^a</u>	<u>Maximum investment in one issuer</u>
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.

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Notes to Basic Financial Statements

June 30, 2010 and 2009

(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.

<u>Authorized investment type</u>	<u>Maximum maturity</u>	<u>Maximum percentage allowed</u>	<u>Maximum investment in one issuer</u>
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.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

The weighted average maturity of each authorized investment type by pool at June 30, 2010 and 2009 are as follows:

Authorized investment type	June 30, 2010		June 30, 2009	
	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	\$ 56,206,085	1.36	\$ 37,573,936	1.80
U.S. Agency securities	42,051,232	1.58	49,578,923	1.64
Medium-term corporate notes	<u>29,410,452</u>	2.60	<u>20,647,448</u>	1.61
Total operating portfolio investments	<u>127,667,769</u>	1.72	<u>107,800,307</u>	1.69
Operating portfolio cash equivalents:				
Money market mutual funds	1,252,699	0.05	1,706,380	0.07
State Treasurer's Local Agency Investment Fund	<u>16,125,590</u>	0.56	<u>14,926,239</u>	0.65
Total operating portfolio cash equivalents	<u>17,378,289</u>	0.53	<u>16,632,619</u>	0.59
Total operating portfolio cash equivalents and investments	<u>145,046,058</u>	1.58	<u>124,432,926</u>	1.54
Passenger Facility Charge (PFC) Fund cash equivalents and investments:				
PFC Fund investments:				
U.S. Treasury securities	11,526,155	1.39	9,262,131	2.36
U.S. Agency securities	8,421,784	1.65	13,441,840	1.18
Medium-term corporate notes	<u>6,615,024</u>	2.67	<u>6,305,570</u>	1.34
Total PFC Fund investments	26,562,963	1.79	29,009,541	1.59
PFC Fund cash equivalents – money market mutual funds	<u>487,363</u>	0.05	<u>2,803,132</u>	0.07
Total PFC Fund cash equivalents and investments	<u>27,050,326</u>	1.76	<u>31,812,673</u>	1.46
Investments held by bond trustee:				
Money market mutual funds	4,082,959	—	3,918,419	—
U.S. Agency securities	<u>5,420,106</u>	<0.01	<u>5,420,431</u>	<0.01
Total investments held by bond trustee	<u>9,503,065</u>	<0.01	<u>9,338,850</u>	<0.01
Total cash equivalents and investments	<u>\$ 181,599,449</u>	1.52	<u>\$ 165,584,449</u>	1.44

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

(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, 2010 and 2009 for each investment type.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

Authorized investment type	Amount	Minimum legal rating	Not required to be rated or not rated	Rating as of year-end			
				AAA	AA	A	NR*
As of June 30, 2010:							
Operating portfolio cash equivalents and investments:							
Operating portfolio investments:							
U.S. Treasury securities	\$ 56,206,085	N/A	\$ 56,206,085	—	—	—	—
U.S. Agency securities:							
Fed. Farm Credit Bank	5,095,682	N/A	—	5,095,682	—	—	—
Fed. Home Loan Bank	15,239,347	N/A	—	15,239,347	—	—	—
Fed. Home Loan Mort. Corp.	15,884,360	N/A	—	15,884,360	—	—	—
Fed. National Mort. Assn.	5,831,843	N/A	—	5,831,843	—	—	—
Total U.S. Agency securities	42,051,232		—	42,051,232	—	—	—
Medium-term corporate notes	29,410,452	A	—	—	11,845,728	17,441,286	123,438
Total Operating portfolio Investments	127,667,769		56,206,085	42,051,232	11,845,728	17,441,286	123,438
Operating portfolio cash equivalents:							
Money market mutual funds	1,252,699	Notrated	1,252,699	—	—	—	—
State Treasurer's Local Agency Investment Fund	16,125,590	Notrated	16,125,590	—	—	—	—
Total Operating portfolio cash equivalents	17,378,289		17,378,289	—	—	—	—
Total Operating portfolio cash equivalents and investments	145,046,058		73,584,374	42,051,232	11,845,728	17,441,286	123,438
Passenger Facility Charge (PFC) Fund cash equivalents and investments:							
PFC Fund investments:							
U.S. Treasury securities	11,526,155	N/A	11,526,155	—	—	—	—
U.S. Agency securities:							
Fed. Farm Credit Bank	1,374,121	N/A	—	1,374,121	—	—	—
Fed. Home Loan Bank	2,591,869	N/A	—	2,591,869	—	—	—
Fed. Home Loan Mort. Corp.	3,856,051	N/A	—	3,856,051	—	—	—
Fed. National Mort. Assn.	599,743	N/A	—	599,743	—	—	—
Total U.S. Agency securities	8,421,784		—	8,421,784	—	—	—
Medium-term corporate notes	6,615,024	A	—	—	2,537,209	4,048,190	29,625
Total PFC Fund investments	26,562,963		11,526,155	8,421,784	2,537,209	4,048,190	29,625
PFC Fund cash equivalents – money market mutual funds	487,363	Notrated	487,363	—	—	—	—
Total PFC Fund cash equivalents and investments	27,050,326		12,013,518	8,421,784	2,537,209	4,048,190	29,625
Investments held by bond trustee:							
U.S. Agency securities – Fed. Home Loan Bank							
Money market mutual funds	4,082,960	Notrated	4,082,960	—	—	—	—
Total investments bond trustee	9,503,066		4,082,960	5,420,106	—	—	—
Total cash equivalents and investments	\$ 181,599,450		\$ 89,680,852	55,893,122	14,382,937	21,489,476	153,063

* Lehman Brothers Holdings is not rated and, based on the recommendation of the Authority's Investment Manager, is being held for bankruptcy liquidation value.

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Authorized investment type	Amount	Minimum legal rating	Not required to be rated or not rated	Rating as of year-end			
				AAA	AA	A	NR*
As of June 30, 2009:							
Operating portfolio cash equivalents and investments:							
Operating portfolio investments:							
U.S. Treasury securities	\$ 37,573,936	N/A	\$ 37,573,936	—	—	—	—
U.S. Agency securities:							
Fed. National Mort. Assn.	15,171,416	N/A	—	15,171,416	—	—	—
Fed. Farm Credit Bank	5,301,352	N/A	—	5,301,352	—	—	—
Fed. Home Loan Bank	14,820,481	N/A	—	14,820,481	—	—	—
Fed. Home Loan Mort. Corp.	14,285,674	N/A	—	14,285,674	—	—	—
Total U.S. Agency securities	49,578,923		—	49,578,923	—	—	—
Medium-term corporate notes	20,647,448	A	—	—	3,815,768	16,731,680	100,000
Total Operating portfolio Investments	107,800,307		37,573,936	49,578,923	3,815,768	16,731,680	100,000
Operating portfolio cash equivalents:							
Money market mutual funds	1,706,380	Not rated	1,706,380	—	—	—	—
State Treasurer's Local Agency Investment Fund	14,926,239	Not rated	14,926,239	—	—	—	—
Total Operating portfolio cash equivalents	16,632,619		16,632,619	—	—	—	—
Total Operating portfolio cash equivalents and investments	124,432,926		54,206,555	49,578,923	3,815,768	16,731,680	100,000
Passenger Facility Charge (PFC) Fund cash equivalents and investments:							
PFC Fund investments:							
U.S. Treasury securities	9,262,131	N/A	9,262,131	—	—	—	—
U.S. Agency securities:							
Fed. National Mort. Assn.	3,678,387	N/A	—	3,678,387	—	—	—
Fed. Farm Credit Bank	2,619,008	N/A	—	2,619,008	—	—	—
Fed. Home Loan Bank	3,136,379	N/A	—	3,136,379	—	—	—
Fed. Home Loan Mort. Corp.	4,008,066	N/A	—	4,008,066	—	—	—
Total U.S. Agency securities	13,441,840		—	13,441,840	—	—	—
Medium-term corporate notes	6,305,570	A	—	—	1,116,827	5,164,743	24,000
Total PFC Fund investments	29,009,541		9,262,131	13,441,840	1,116,827	5,164,743	24,000
PFC Fund cash equivalents – money market mutual funds	2,803,132	Not rated	2,803,132	—	—	—	—
Total PFC Fund cash equivalents and investments	31,812,673		12,065,263	13,441,840	1,116,827	5,164,743	24,000
Investments held by bond trustee:							
U.S. Agency securities – Fed. National Mort. Assn.							
Money market mutual funds	3,918,419	Not rated	3,918,419	—	—	—	—
Total investments bond trustee	9,338,850		3,918,419	5,420,431	—	—	—
Total cash equivalents and investments	\$ 165,584,449		\$ 70,190,237	68,441,194	4,932,595	21,896,423	124,000

* Lehman Brothers Holdings is not rated and, based on the recommendation of the Authority's Investment Manager, is being held for bankruptcy liquidation value.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

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(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:

Issuer	Authorized investment type	Reported amount at June 30			
		2010		2009	
		Amount	Fund%	Amount	Fund%
Operating portfolio investments:					
Federal Home Loan Mortgage Corp.	U.S. Agency securities	\$ 15,884,360	10.95%	\$ 14,285,674	11.48%
Federal Home Loan Bank	U.S. Agency securities	15,239,347	10.51	14,820,481	11.91
Federal National Mortgage Association	U.S. Agency securities	—	—	15,171,416	12.19
Passenger Facility Charge Fund investments:					
Federal Home Loan Mortgage Corp.	U.S. Agency securities	3,856,051	14.26	4,008,066	12.60
Federal Home Loan Bank	U.S. Agency securities	2,591,869	9.58	3,136,379	9.86
Federal Farm Credit Bank	U.S. Agency securities	1,374,121	5.08	2,619,008	8.23
Federal National Mortgage Association	U.S. Agency securities	—	—	3,678,387	11.56
Held by bond trustee:					
Federal Home Loan Bank	U.S. Agency securities	5,420,106	57.04	—	—
Federal National Mortgage Association	U.S. Agency securities	—	—	5,420,431	58.04

(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.

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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:

	<u>2010</u>	<u>2009</u>
Cash deposits:		
Insured (under TAG program through December 31, 2009)	\$ 250,000	1,665,491
Uninsured, collateral held in the Authority's name	<u>2,464,717</u>	<u>—</u>
Total cash deposits	2,714,717	1,665,491
Plus deposits in transit	339,033	629,650
Less outstanding checks	<u>(2,184,311)</u>	<u>(724,350)</u>
Carrying amount of cash deposits	\$ <u>869,439</u>	<u>1,570,791</u>

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, 2010 and 2009, the total amount invested by all California local governments and special districts in LAIF was \$23.3 billion and \$25.2 billion, respectively. LAIF is part of the State of California's Pooled Money Investment Account (PMIA), which as of June 30, 2010 and 2009 had a balance of \$69.6 billion and \$50.9 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 \$0.6 billion and \$5.2 billion, respectively, and asset-backed securities totaling \$3.1 billion and \$2.3 billion, respectively.

BURBANK-GLENDALE-PASADENA AIRPORT AUTHORITY

Notes to Basic Financial Statements

June 30, 2010 and 2009

(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 (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.

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(5) Capital Assets

Changes in capital assets for the year ended June 30, 2010 were as follows:

	<u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2010</u>
Capital assets not being depreciated:				
Land	\$ 156,923,796	—	—	156,923,796
Other non-depreciable assets	589,966	—	—	589,966
Construction in progress	<u>3,461,223</u>	<u>11,132,475</u>	<u>(10,050,394)</u>	<u>4,543,304</u>
Total capital assets not being depreciated	<u>160,974,985</u>	<u>11,132,475</u>	<u>(10,050,394)</u>	<u>162,057,066</u>
Capital assets being depreciated/amortized:				
Building and improvements	129,322,739	1,175,663	(878,450)	129,619,952
Runways and improvements	79,467,528	7,113,203	(2,877,786)	83,702,945
Machinery and equipment	<u>30,470,943</u>	<u>1,761,528</u>	<u>(390,924)</u>	<u>31,841,547</u>
Total capital assets being depreciated/ amortized	<u>239,261,210</u>	<u>10,050,394</u>	<u>(4,147,160)</u>	<u>245,164,444</u>
Less accumulated depreciation/amortization for:				
Building structures	(61,397,544)	(7,414,321)	878,450	(67,933,415)
Runway/airfield improvements	(45,776,595)	(3,986,495)	2,877,786	(46,885,304)
Equipment	<u>(18,065,820)</u>	<u>(4,279,060)</u>	<u>292,143</u>	<u>(22,052,737)</u>
Total accumulated depreciation/ amortization	<u>(125,239,959)</u>	<u>(15,679,876)</u>	<u>4,048,379</u>	<u>(136,871,456)</u>
Total capital assets being depreciated/ amortized, net	<u>114,021,251</u>	<u>(5,629,482)</u>	<u>(98,781)</u>	<u>108,292,988</u>
Total capital assets, net	<u>\$ 274,996,236</u>	<u>5,502,993</u>	<u>(10,149,175)</u>	<u>270,350,054</u>

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Changes in capital assets for the year ended June 30, 2009 were as follows:

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 156,923,796	—	—	156,923,796
Other non-depreciable assets	—	589,966	—	589,966
Construction in progress	<u>9,370,885</u>	<u>19,890,816</u>	<u>(25,800,478)</u>	<u>3,461,223</u>
Total capital assets not being depreciated	<u>166,294,681</u>	<u>20,480,782</u>	<u>(25,800,478)</u>	<u>160,974,985</u>
Capital assets being depreciated/amortized:				
Building and improvements	121,716,572	7,970,365	(364,198)	129,322,739
Runways and improvements	70,635,665	8,853,288	(21,425)	79,467,528
Machinery and equipment	<u>22,542,095</u>	<u>8,386,859</u>	<u>(458,011)</u>	<u>30,470,943</u>
Total capital assets being depreciated/ amortized	<u>214,894,332</u>	<u>25,210,512</u>	<u>(843,634)</u>	<u>239,261,210</u>
Less accumulated depreciation/amortization for:				
Building structures	(54,715,517)	(7,031,712)	349,685	(61,397,544)
Runway/airfield improvements	(42,218,143)	(3,579,877)	21,425	(45,776,595)
Equipment	<u>(14,520,602)</u>	<u>(4,000,834)</u>	<u>455,616</u>	<u>(18,065,820)</u>
Total accumulated depreciation/ amortization	<u>(111,454,262)</u>	<u>(14,612,423)</u>	<u>826,726</u>	<u>(125,239,959)</u>
Total capital assets being depreciated/ amortized, net	<u>103,440,070</u>	<u>10,598,089</u>	<u>(16,908)</u>	<u>114,021,251</u>
Total capital assets, net	\$ <u><u>269,734,751</u></u>	\$ <u><u>31,078,871</u></u>	\$ <u><u>(25,817,386)</u></u>	\$ <u><u>274,996,236</u></u>

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(6) Long-Term Debt

The following is a summary of changes in long-term debt for the years ended June 30, 2010 and 2009:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Year ended June 30, 2010:					
Revenue bonds payable:					
2005 Series A	\$ 7,750,000	—	—	7,750,000	855,000
2005 Series B	50,765,000	—	—	50,765,000	1,470,000
2005 Taxable Series C	2,625,000	—	(2,420,000)	205,000	205,000
Plus (less) deferred amounts for:					
Original issue premium	2,356,651	—	(149,233)	2,207,418	—
Deferred amount on refunding	(41,351)	—	41,351	—	—
Total revenue bonds payable	<u>63,455,300</u>	<u>—</u>	<u>(2,527,882)</u>	<u>60,927,418</u>	<u>2,530,000</u>
Total long-term debt payable	\$ <u>63,455,300</u>	<u>—</u>	<u>(2,527,882)</u>	<u>60,927,418</u>	<u>2,530,000</u>
Year ended June 30, 2009:					
Revenue bonds payable:					
2005 Series A	\$ 7,750,000	—	—	7,750,000	—
2005 Series B	50,765,000	—	—	50,765,000	—
2005 Taxable Series C	4,945,000	—	(2,320,000)	2,625,000	2,420,000
Plus (less) deferred amounts for:					
Original issue premium	2,505,883	—	(149,232)	2,356,651	—
Deferred amount on refunding	(86,461)	—	45,110	(41,351)	—
Total revenue bonds payable	<u>65,879,422</u>	<u>—</u>	<u>(2,424,122)</u>	<u>63,455,300</u>	<u>2,420,000</u>
Total long-term debt payable	\$ <u>65,879,422</u>	<u>—</u>	<u>(2,424,122)</u>	<u>63,455,300</u>	<u>2,420,000</u>

(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 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 \$855,000 to \$1,100,000 from July 1, 2010 to July 1, 2017 with interest rates ranging from 3.125% 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, without premium, in whole or in part on any date on or after

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July 1, 2015. The balance of 2005 Series A Bonds outstanding at June 30, 2010 and 2009 is \$7,750,000 and \$7,750,000, respectively, plus unamortized original issue premium of \$27,183 and \$31,067, respectively, less unamortized deferred amount on refunding of \$0 and \$41,351, 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 \$84,277 and \$96,317 at June 30, 2010 and 2009, 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 \$1,470,000 to \$5,160,000 from July 1, 2010 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 2005 Taxable Series C Bonds are not subject to redemption prior to maturity. The balance of 2005 Series B Bonds outstanding at June 30, 2010 and 2009 is \$50,765,000 and \$50,765,000, respectively, plus unamortized original issue premium of \$2,180,235 and \$2,325,584, respectively. The balance of 2005 Taxable Series C Bonds outstanding at June 30, 2010 and 2009 is \$205,000 and \$2,625,000, respectively. 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, 2010 and 2009 for 2005 Series B Bonds of \$712,421 and \$759,916, respectively, and for 2005 Taxable Series C Bonds of \$0 and \$33,282, respectively, 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 various bond indentures. Authority management believes that the Authority has complied with such requirements.

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(b) Annual Debt Service Requirements to Maturity

Revenue bond debt service requirements to maturity are as follows:

	2005 Series A		2005 Series B		2005 Series C		Total		Total debt service
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
Payable in year ending									
June 30:									
2011	\$ 855,000	273,447	1,470,000	2,557,100	205,000	4,602	2,530,000	2,835,149	5,365,149
2012	880,000	244,687	1,760,000	2,476,350	—	—	2,640,000	2,721,037	5,361,037
2013	915,000	213,275	1,840,000	2,386,350	—	—	2,755,000	2,599,625	5,354,625
2014	945,000	179,544	1,935,000	2,289,556	—	—	2,880,000	2,469,100	5,349,100
2015	980,000	143,138	2,035,000	2,185,344	—	—	3,015,000	2,328,482	5,343,482
2016 – 2020	3,175,000	192,425	14,235,000	9,041,444	—	—	17,410,000	9,233,869	26,643,869
2021 – 2025	—	—	22,330,000	4,196,044	—	—	22,330,000	4,196,044	26,526,044
2026	—	—	5,160,000	129,000	—	—	5,160,000	129,000	5,289,000
Total principal and interest to maturity	7,750,000	\$ 1,246,516	50,765,000	25,261,188	205,000	4,602	58,720,000	26,512,306	85,232,306
Unamortized portion of:									
Original issue premium	27,183		2,180,235		—		2,207,418		2,207,418
Less current portion of principal	(855,000)		(1,470,000)		(205,000)		(2,530,000)		(2,530,000)
Total long-term portion of revenue bonds payable	\$ 6,922,183		51,475,235		—		58,397,418		84,909,724

(c) Pledged Revenues

The 2005 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. Net revenues totaled \$16,924,592 and \$22,330,030 for the years ended June 30, 2010 and 2009, respectively. 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 is equal to the remaining debt service on the 2005 Bonds at June 30, 2010 of \$85,232,306. The pledged revenues are in force during the term of the 2005 Bonds with final maturity on July 1, 2025.

(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.

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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. 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.

The Authority’s total salaries and benefits were \$2,953,126 in FY 2010 and \$2,715,539 in FY 2009. The Authority’s contributions have been calculated using the base salary amount of \$2,236,015 in FY 2010 and \$2,123,100 in FY 2009. The Authority made the required accruals and contributions, amounting to \$134,161 and \$127,386 in fiscal years 2010 and 2009, 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, 2009, 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.

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, 2010 and 2009:

<u>Date accepted</u>	<u>AIP grant number</u>	<u>Award Amount</u>	<u>Project description</u>
May 2005	3-06-0031-40	\$ 8,000,000	Sound insulation of residences
August 2006	3-06-0031-41	12,000,000	Sound insulation of residences
August 2006	3-06-0031-42	836,063	Sound insulation of residences
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

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During the year ended June 30, 2010, the Authority expended \$6,109,511 on these projects, of which \$3,547,167 was funded through FAA grants, \$2,445,063 through PFC funds and \$117,281 through Authority funds. The Authority acoustically treated approximately 135 residences during FY 2010 and an additional 112 are in progress at June 30, 2010. During the year ended June 30, 2009, the Authority expended \$7,102,086 on these projects, of which \$5,592,635 was funded through FAA grants, \$1,346,979 through PFC funds and \$162,472 through Authority funds. The Authority acoustically treated approximately 186 residences during FY 2009 and an additional 23 are in progress at June 30, 2009.

(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, 2010 as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 28,773,504	—
Buildings and improvements	30,390,950	21,595,380
Runways and improvements	647,000	632,635
	<u>\$ 59,811,454</u>	<u>22,228,015</u>

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 \$7,944,325 and \$8,744,001 for the years ended June 30, 2010 and 2009, respectively, consisting of MAG revenues of \$7,367,142 and \$7,601,770, respectively, and over-MAG revenues of \$577,183 and \$1,142,231, respectively.

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Minimum future rental revenue on noncancelable leases in effect at June 30, 2010 is as follows:

	<u>Lease revenue</u>
Fiscal year ending June 30:	
2011	\$ 25,121,652
2012	13,395,363
2013	13,272,864
2014	9,201,401
2015	4,124,124
2016 – 2020	11,712,270
2021 – 2025	10,128,346
2026 – 2030	1,879,666
2031	355,066
	<u>\$ 89,190,752</u>

(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, 2010 and 2009 totaled \$10,291,365 and \$11,035,756, respectively, including investment income on the PFC investment portfolio of \$649,043 and \$1,370,788, respectively. During the year ended June 30, 2010, funds totaling \$15,168,837 for eligible costs expended on PFC projects were reimbursed to the Current Operating Fund from the PFC Fund. Of this amount, \$1,715,544 was for sound insulation program expenditures, \$4,108,344 was for the Engineered Material Arresting System (EMAS) Extension project, \$3,000,000 for the Terminal A Baggage Claim project, \$2,860,931 was for the Taxiway D Extension project, and \$3,484,018 was for other Airport facility development projects. During the year ended June 30, 2009, funds totaling \$9,571,099 for eligible costs expended on PFC projects were reimbursed to the Current Operating Fund from the PFC Fund. Of this amount, \$1,355,379 was for sound insulation program expenditures, \$6,229,908 was for the Terminal B EDS Baggage Inspection Facility and \$1,985,812 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. All CFC funds collected are maintained in a separate account administered by the Authority prior to disbursement. CFC revenue for the year ended June 30, 2010 totaled \$1,755,750. During the year ended June 30, 2010, funds totaling \$1,105,186 for eligible costs expended on the CRCF project were reimbursed to the Current Operating Fund from the CFC Fund.

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(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 and a City parking tax.

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 \$2,149,576 and \$2,307,657 during the years ended June 30, 2010 and 2009, respectively. The Authority incurred utility expense for electricity, water and wastewater utilities from Burbank Water and Power during the years ended June 30, 2010 and 2009 totaling \$1,807,754 and \$1,821,638 (including amounts charged back to tenants of \$273,030 and \$260,647), respectively.

(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.

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, 2010. 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)

In January 2010, the Authority received a letter from the U.S. EPA (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. The second interim remedy is estimated by EPA to cost approximately \$108 million. This is a preliminary estimate that is 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 requesting 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 North Hollywood Operable Unit and a portion of the collective San Fernando Valley Superfund Sites that the EPA calculated to be approximately \$13 million.

The Authority, together with 17 other designated PRPs submitted a good faith settlement offer to EPA on September 3, 2010. EPA subsequently indicated that it will require an offer to pay for all of the costs of the remedial design work, which could cost \$2 million or more to complete. On

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September 30, 2010, two PRPs (Honeywell, Inc. and Lockheed Martin Corporation) responded by offering to commit to conduct the entire remedial design work. EPA has indicated a willingness to negotiate with Honeywell, Inc. and Lockheed Martin Corporation an agreement to undertake the remedial design work while simultaneously negotiating a subsequent agreement with those parties and other PRPs for the remainder of the work valued at approximately \$106 million. The Authority was listed in the September 30, 2010 letter as a party potentially interested in participating in the remedial design phase if additional questions could be resolved. At this juncture, it is impossible to predict with any reasonable basis on the potential outcome, if any, of EPA's demands or the response thereto by the Authority or other named PRPs.

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

Given the current facts and language of the written indemnity, Management believes that the Authority should prevail in its assertion that Lockheed Martin Corporation owes a duty to defend and would have to indemnify the Authority for any potential liability to EPA in connection with the North Hollywood Operable Unit.

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 payments of \$29,179 during the year ended June 30, 2010, are included in accounts payable and accrued expenses. The method, priority and schedule for repairs to the hangar floors are being negotiated between the Authority and the hangar tenants.

(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, 2010 and 2009 total \$8,209,888 and \$7,131,774, as follows:

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	<u>2010</u>	<u>2009</u>
Contracted airport services	\$ 7,783,502	6,780,182
Capitalized to constructed capital assets	154,351	89,765
Sound insulation program	232,103	183,658
Other expenses	<u>39,932</u>	<u>78,169</u>
Total airport management contract costs	<u>\$ 8,209,888</u>	<u>7,131,774</u>

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:	
2011	\$ 1,825,000
2012	1,900,000
2013	1,975,000
2014	<u>666,667</u>
	<u>\$ 6,366,667</u>

The Authority contracts with Central Parking System for self-park management services, valet parking services and employee and customer busing service, which runs through June 30, 2011. Compensation under the contract 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 contract for the years ended June 30, 2010 and 2009 total \$6,670,168 and \$6,809,085, respectively.

(c) Construction Contracts

The Authority has contract commitments outstanding at June 30, 2010 for various construction contracts totaling \$4,914,490. Subsequent to June 30, 2010, the Authority entered additional construction contracts totaling \$9,767,887, primarily related to the runway guard lights project and the residential acoustical treatment program.

(d) Federal Grants

As of June 30, 2010, the Authority had nonexpended, noncancelable grant commitments of \$16,262,078 in federal funds related to the sound insulation program, \$629,151 related to an Aircraft Rescue and Firefighting vehicle, \$596,465 related to the runway shoulder rehabilitation project, \$450,000 related to the fiber optic ring project, and \$199,121 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, 2010 and 2009, are as follows:

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Award Date	Award Amount	Project description	Expenditures charged to grant	
			2010	2009
August 2006	\$ 12,000,000	Noise mitigation measures	\$ 2,989,069	\$ 5,412,812
August 2007	7,000,000	Noise mitigation measures	314,858	179,823
June 2008	3,000,000	Noise mitigation measures	103,865	—
June 2008	3,858,237	Taxiway rehabilitation	—	3,781,835
February 2009	7,000,000	Noise mitigation measures	139,376	—
February 2009	1,674,842	Runway guard lights	1,476,196	198,646
May 2009	3,985,000	Taxiway C, D & G rehabilitation	3,317,221	629,055
July 2009	641,410	Runway guard lights	641,410	—
July 2009	632,191	ARFF vehicle	3,040	—
July 2009	450,000	Fiberoptic ring/perimeter security	—	—
March 2010	604,425	Runway shoulder rehabilitation	7,960	—
Various	431,454	Asset forfeiture funds	232,333	50,819

In July 2010, the FAA awarded the Authority an additional grant for the runway shoulder rehabilitation in the amount of \$115,244.

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.

The Development Agreement expires 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

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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.

(15) Part 161 Application

On November 2, 2009, the Federal Aviation Administration disapproved the Authority’s FAR Part 161 application to impose a full night-time curfew at Bob Hope Airport.

(16) 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 currently located in a 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 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) regarding a significant 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 will also be developed which will permit the Authority to repower its fleet of diesel buses and promote use of alternate fuel vehicles.