

JOHN WAYNE AIRPORT
(An Enterprise Fund of
the County of Orange, California)

Financial Statements
and Independent Auditor's Reports

For the Years Ended June 30, 2013 and 2012

**JOHN WAYNE AIRPORT
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of John Wayne Airport (the Airport), an enterprise fund of the County of Orange, California (the County), as of and for the year ended June 30, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport, as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Airport, an enterprise fund of the County, and do not purport to, and do not, present fairly the financial position of the County as a whole as of June 30, 2013 and 2012, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our report was not modified with respect to this matter.

Other Matters

Prior Year Comparative Financial Statements

The financial statements of the Airport as of June 30, 2012, were audited by other auditors whose report dated November 28, 2012, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–12 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20 2013, on our consideration of the Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2013. 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* in considering the Airport's internal control over financial reporting and compliance.



Newport Beach, California
December 20, 2013

**JOHN WAYNE AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

As management of John Wayne Airport, Orange County (Airport), we offer readers of the Airport's financial statements this narrative overview and analysis of the financial activities of the Airport for the years ended June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the information furnished in the Airport's basic financial statements.

Financial Highlights

- The assets of the Airport exceeded its liabilities by \$606,959 (net position) as of June 30, 2013. Of this amount, \$144,553 (unrestricted net position) may be used to meet the ongoing obligations of the Airport, \$82,238 (restricted net position) was restricted for specific purposes, and \$380,168 was the net investment in capital assets.
- Total net position increased by \$16,027 or 2.7% for the year ended June 30, 2013. This increase consists of operating income of \$4,663, net nonoperating revenues of \$7,525, and capital grant contributions of \$3,839.
- Total liabilities decreased by \$11,397 or 3.6% from June 30, 2012. Long-term liabilities decreased by \$30,098 or 12.4% due to the scheduled redemption of the 2003 Airport Revenue Refunding Bonds with carrying principal amount of \$23,685 on July 1, 2013, which is classified as a current liability.
- Current and other assets, excluding capital assets, increased by \$18,751 or 6.5% from June 30, 2012.

Overview of the Financial Statements

The Airport's financial statements are divided into two components:

- Financial statements: Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; Statement of Cash Flows.
- Notes to the financial statements.

The Airport is a department of the County of Orange (County) and it uses the enterprise fund to account for the operations of the Airport.

The financial statements are prepared using the full accrual basis of accounting and the economic resources measurement focus in accordance with U.S. generally accepted accounting principles.

- Statement of Net Position is the statement of financial position for the Airport. Airport assets and liabilities, both financial and capital, short-term and long-term, and deferred inflows and outflows, are presented in this statement. Current assets and liabilities are reasonably expected to be realized or liquidated within one year.
- Statement of Revenues, Expenses and Changes in Net Position is the statement of activities for the Airport. All Airport revenues and expenses during the year, regardless when cash is received or paid, are presented in this statement.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(to the nearest thousand)**

Overview of the Financial Statements (continued)

- Statement of Cash Flows is the financial statement classifying the Airport's cash and cash equivalent receipts (inflows) and payments (outflows) resulting from operating, noncapital financing, capital and related financing, or investing activities.
- Notes to the Financial Statements provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements.

Refer to Note 1, Reporting Entity and Summary of Significant Accounting Policies, for additional information.

Financial Analysis

Net position may serve as a useful indicator of the Airport's financial position. At June 30, 2013 and 2012, the assets of the Airport exceeded its liabilities by \$606,959 (an increase of 2.7%) and \$590,932 (an increase of 5.1%), respectively.

Net Position:

| | <u>2013</u> | <u>2012</u> | <u>2013 vs 2012</u> <u>% Change</u> | <u>2011</u> | <u>2012 vs 2011</u> <u>% Change</u> |
|----------------------------------|-------------------|-------------------|--|-------------------|--|
| ASSETS | | | | | |
| Current and other assets | \$ 307,267 | \$ 288,516 | 6.5 % | \$ 327,029 | (11.8) % |
| Capital assets | <u>603,915</u> | <u>618,036</u> | <u>(2.3) %</u> | <u>565,707</u> | <u>9.3 %</u> |
| TOTAL ASSETS | <u>911,182</u> | <u>906,552</u> | <u>0.5 %</u> | <u>892,736</u> | <u>1.5 %</u> |
| LIABILITIES | | | | | |
| Long-term liabilities | 212,137 | 242,235 | (12.4) % | 251,660 | (3.7) % |
| Other liabilities | <u>92,086</u> | <u>73,385</u> | <u>25.5 %</u> | <u>79,079</u> | <u>(7.2) %</u> |
| TOTAL LIABILITIES | <u>304,223</u> | <u>315,620</u> | <u>(3.6) %</u> | <u>330,739</u> | <u>(4.6) %</u> |
| NET POSITION | | | | | |
| Net investment in capital assets | 380,168 | 380,330 | 0.0 % | 387,687 | (1.9) % |
| Restricted net position | 82,238 | 58,149 | 41.4 % | 50,899 | 14.2 % |
| Unrestricted net position | <u>144,553</u> | <u>152,453</u> | <u>(5.2) %</u> | <u>123,411</u> | <u>23.5 %</u> |
| TOTAL NET POSITION | <u>\$ 606,959</u> | <u>\$ 590,932</u> | <u>2.7 %</u> | <u>\$ 561,997</u> | <u>5.1 %</u> |

At June 30, 2013 and 2012, the largest component of the Airport's net position (62.6% and 64.4%) was its investment in capital assets (e.g., land, structures and improvements, equipment, construction in progress, infrastructure and intangible assets), less any related outstanding debt used to acquire these assets. The Airport uses these capital assets to provide services to its passengers and visitors. Accordingly, these assets are not available for future spending. Although the Airport's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay the debt must be provided from operating activities or other sources, since the capital assets themselves cannot be liquidated to fulfill these liabilities.

**JOHN WAYNE AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(to the nearest thousand)**

Financial Analysis (continued)

At June 30, 2013 and 2012, an additional component of the Airport's net position (13.6% and 9.8%) represents resources that are subject to external usage restrictions such as reserve for debt service, passenger facility charges, and replacement and renewals for capital projects. The remaining net position balance of \$144,553 (23.8%) and \$152,453 (25.8%) is unrestricted and may be used to meet the Airport's ongoing obligations.

As of June 30, 2013:

The Airport's total assets increased by \$4,630 or 0.5%. Current and other assets increased by \$18,751 or 6.5% primarily due to the increase in cash and cash equivalents which was a result of a decrease in construction activity. Capital assets decreased by \$14,121 or 2.3%, which can be primarily attributed to the increase in accumulated depreciation for capital assets related to the Airport Improvement Program (AIP) that were placed into service in the year ended June 30, 2012.

The Airport's total liabilities decreased by \$11,397 or 3.6%. Long-term liabilities decreased by \$30,098 or 12.4% and other liabilities increased by \$18,701 or 25.5% mainly due to the scheduled redemption and retirement of long-term debt obligations. Refer to Note 5, Long-Term Obligations, for additional information.

As of June 30, 2012:

The Airport's total assets increased by \$13,816 or 1.5%. Current and other assets decreased by \$38,513 or 11.8% due primarily to costs for the construction of the AIP. Capital assets increased by \$52,329 or 9.3%, which can be primarily attributed to construction for the AIP.

The Airport's total liabilities decreased by \$15,119 or 4.6%. Long-term liabilities decreased by \$9,425 or 3.7% due to the retirement of long-term debt obligations. Refer to Note 5, Long-Term Obligations, for additional information. Other liabilities decreased by \$5,694 or 7.2% primarily due to a decrease in deposits payable related to the transfer of a capital asset, the hydrant fuel line extension, located at the newly constructed South Remain Over Night aircraft parking apron.

**JOHN WAYNE AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(to the nearest thousand)**

Financial Analysis (continued)

Changes in Net Position:

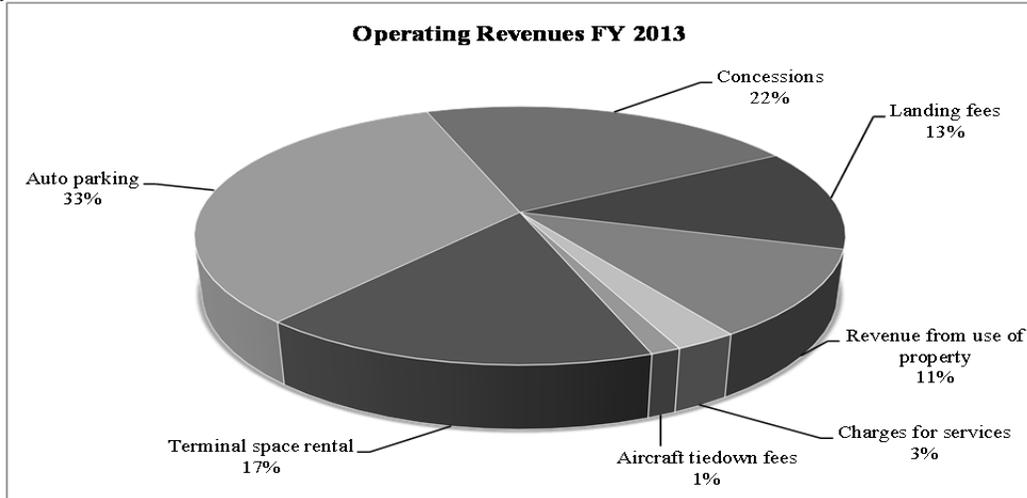
| | <u>2013</u> | <u>2012</u> | <u>2013 vs 2012</u> <u>% Change</u> | <u>2011</u> | <u>2012 vs 2011</u> <u>% Change</u> |
|---|-------------------|-------------------|--|-------------------|--|
| OPERATING REVENUES | | | | | |
| Terminal space rental | \$ 19,287 | \$ 23,718 | (18.7) % | \$ 21,562 | 10.0 % |
| Auto parking | 37,908 | 35,842 | 5.8 % | 35,512 | 0.9 % |
| Concessions | 25,504 | 25,145 | 1.4 % | 24,268 | 3.6 % |
| Landing fees | 14,536 | 12,561 | 15.7 % | 12,369 | 1.6 % |
| Revenue from use of property | 12,599 | 9,475 | 33.0 % | 8,554 | 10.8 % |
| Charges for services | 2,997 | 3,246 | (7.7) % | 2,718 | 19.4 % |
| Aircraft tiedown fees | 1,462 | 1,477 | (1.0) % | 1,479 | (0.1) % |
| Total operating revenues | <u>114,293</u> | <u>111,464</u> | <u>2.5 %</u> | <u>106,462</u> | <u>4.7 %</u> |
| OPERATING EXPENSES | | | | | |
| Professional and specialized services | 36,337 | 34,426 | 5.6 % | 33,444 | 2.9 % |
| Salaries and employee benefits | 18,645 | 18,680 | (0.2) % | 18,118 | 3.1 % |
| Other services and supplies | 24,938 | 24,708 | 0.9 % | 19,110 | 29.3 % |
| Depreciation | 29,710 | 20,985 | 41.6 % | 15,830 | 32.6 % |
| Total operating expenses | <u>109,630</u> | <u>98,799</u> | <u>11.0 %</u> | <u>86,502</u> | <u>14.2 %</u> |
| Operating income | <u>4,663</u> | <u>12,665</u> | <u>(63.2) %</u> | <u>19,960</u> | <u>(36.5) %</u> |
| NONOPERATING REVENUES (EXPENSES) | | | | | |
| Interest income | 811 | 986 | (17.7) % | 1,857 | (46.9) % |
| Interest expense | (12,557) | (6,295) | 99.5 % | (292) | 2055.8 % |
| Bankruptcy settlement proceeds | 562 | 611 | (8.0) % | 562 | 8.7 % |
| Fines and penalties | 195 | 248 | (21.4) % | 242 | 2.5 % |
| Other revenue (expense) - net | 60 | (692) | (108.7) % | 65 | (1164.6) % |
| PFC revenue | 18,454 | 17,500 | 5.5 % | 17,599 | (0.6) % |
| Total nonoperating revenues (expenses) | <u>7,525</u> | <u>12,358</u> | <u>(39.1) %</u> | <u>20,033</u> | <u>(38.3) %</u> |
| INCOME BEFORE CONTRIBUTIONS | 12,188 | 25,023 | (51.3) % | 39,993 | (37.4) % |
| Capital grant contributions | <u>3,839</u> | <u>3,912</u> | <u>(1.9) %</u> | <u>6,544</u> | <u>(40.2) %</u> |
| CHANGES IN NET POSITION | 16,027 | 28,935 | (44.6) % | 46,537 | (37.8) % |
| TOTAL NET POSITION BEGINNING OF YEAR | <u>590,932</u> | <u>561,997</u> | <u>5.1 %</u> | <u>515,460</u> | <u>9.0 %</u> |
| TOTAL NET POSITION END OF YEAR | <u>\$ 606,959</u> | <u>\$ 590,932</u> | <u>2.7 %</u> | <u>\$ 561,997</u> | <u>5.1 %</u> |

During the years ended June 30, 2013 and 2012, the Airport's net position increased by \$16,027 or 2.7% and \$28,935 or 5.1%, respectively.

**JOHN WAYNE AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(to the nearest thousand)**

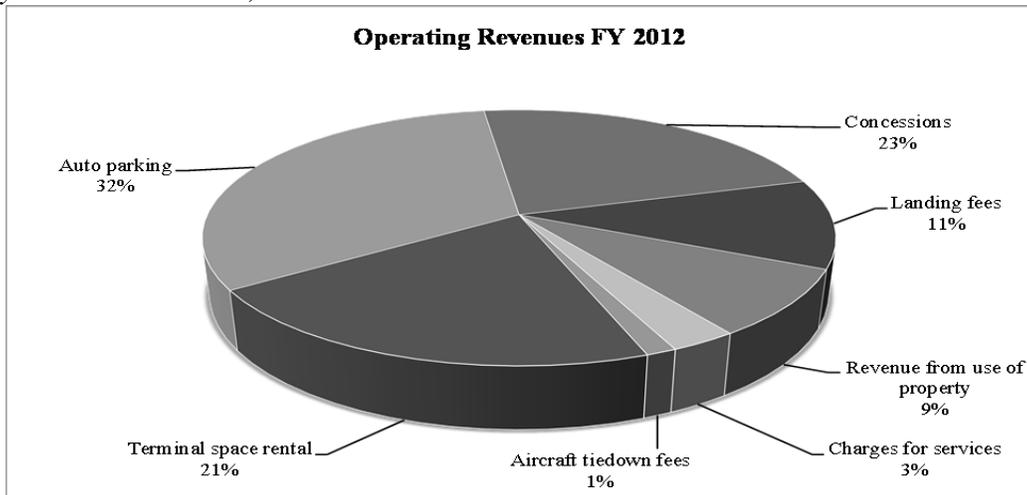
Financial Analysis (continued)

For the year ended June 30, 2013:



The Airport's operating revenues increased by \$2,829 or 2.5% primarily due to an increase in auto parking, landing fees, and revenue from use of property as a result of the increase in number of passengers, higher landing fees, and the addition of cost reimbursements for new services provided to the airlines, partially offset by a decrease in terminal space rental as a result of a rate adjustment.

For the year ended June 30, 2012:

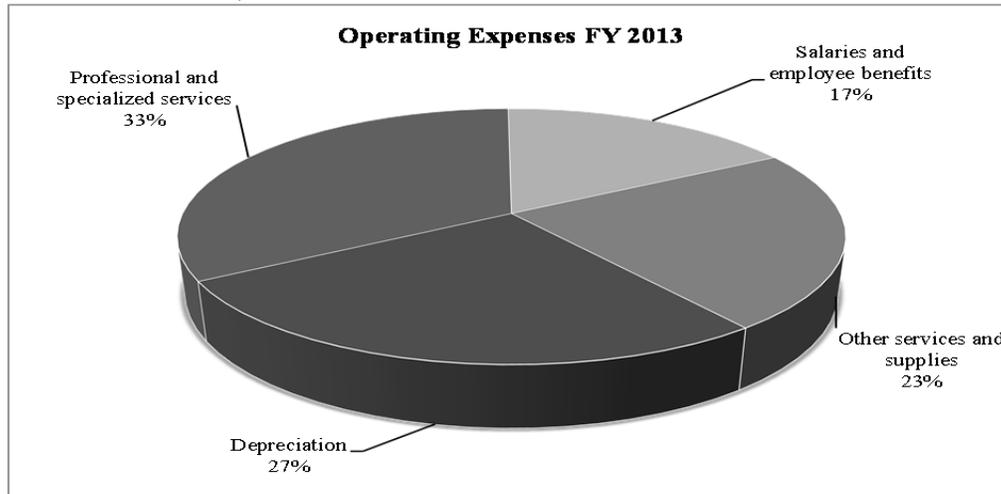


The Airport's operating revenues increased by \$5,002 or 4.7% primarily due to an increase in terminal space rent, revenue from use of property, charges for services and concession revenue as a result of the addition of Terminal C. Capital grant contributions decreased by \$2,632 or 40.2% due to a decrease in Transportation Security Administration grant monies.

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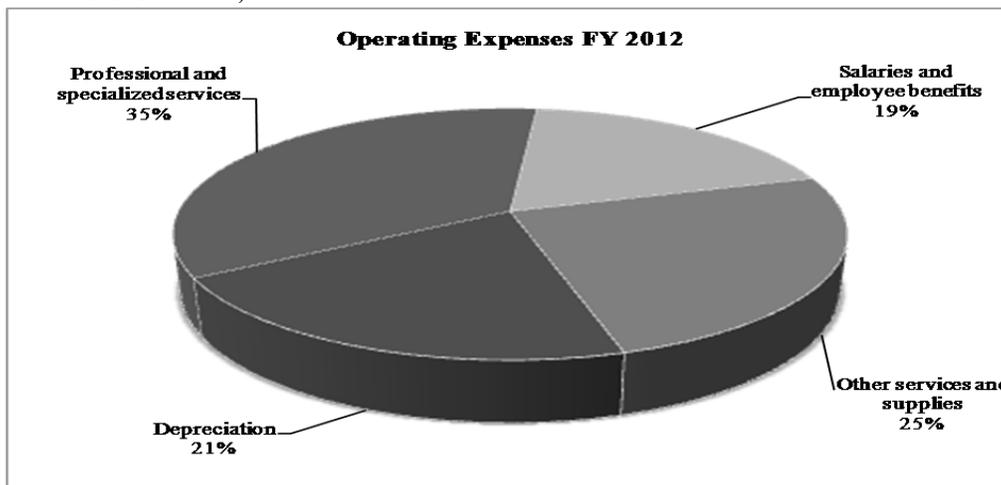
Financial Analysis (continued)

For the year ended June 30, 2013:



The Airport's operating expenses increased by \$10,831 or 11.0% primarily due to an increase in professional and specialized services and depreciation. Professional and specialized services increased as a result of newly added services provided by U.S. Customs and Border Protection (CBP) for the processing of passengers utilizing international flights and depreciation increased due to a full year of depreciation expenses associated with AIP related capital assets.

For the year ended June 30, 2012:



The Airport's operating expenses increased by \$12,297 or 14.2% primarily due to an increase in other services and supplies, for Central Utility Plant maintenance costs, new furnishing for Terminal C and depreciation expense, as a result of capital assets placed into service such as Terminal C and Parking Structure C.

**JOHN WAYNE AIRPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

Financial Analysis (continued)

For the years ended June 30, 2013 and 2012, the Airport's nonoperating revenues decreased by \$4,833 or 39.1% and \$7,675 or 38.3%, respectively, primarily due to an increase in interest expense as a result of a decrease in capitalized interest expense due to the completion of debt financed AIP related projects. Refer to Note 1, Reporting Entity and Summary of Significant Accounting Policies, for additional information.

Capital Assets

The Airport's investment in capital assets as of June 30, 2013 and 2012 amounted to \$603,915 and \$618,036, net of accumulated depreciation, respectively. This investment in capital assets includes land, structures and improvements, equipment, infrastructure (runways, taxiways and aprons), construction in progress and intangible assets. The total change in capital assets for the years ended June 30, 2013 and 2012 was a decrease of 2.3% and an increase of 9.3%, respectively.

Capital Assets (Net of Depreciation):

| | <u>2013</u> | <u>2012</u> | <u>2013 vs 2012</u> <u>% Change</u> | <u>2011</u> | <u>2012 vs 2011</u> <u>% Change</u> |
|-------------------------------|-------------------|-------------------|--|-------------------|--|
| CAPITAL ASSETS | | | | | |
| Land | \$ 15,678 | \$ 15,678 | 0.0 % | \$ 15,678 | 0.0 % |
| Structures and Improvements | 513,833 | 500,160 | 2.7 % | 172,641 | 189.7 % |
| Equipment | 2,664 | 2,775 | (4.0) % | 2,654 | 4.6 % |
| Infrastructure | 49,974 | 53,457 | (6.5) % | 63,342 | (15.6) % |
| Construction in progress | 21,348 | 45,966 | (53.6) % | 311,392 | (85.2) % |
| Intangible assets in progress | 418 | - | N/A | - | N/A |
| TOTAL CAPITAL ASSETS | <u>\$ 603,915</u> | <u>\$ 618,036</u> | <u>(2.3) %</u> | <u>\$ 565,707</u> | <u>9.3 %</u> |

Major capital asset events during the year ended June 30, 2013 included the following:

- Completion of the terminal bag belt upgrade phase II at an approximate cost of \$3,227.
- Completion of the airline offices tenants improvements at an approximate cost of \$8,429.
- Completion of the concessionaire tenants improvements at an approximate cost of \$2,836.
- Completion of the terminal generator project at an approximate cost of \$1,557.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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(to the nearest thousand)**

Capital Assets (continued)

Major capital asset events during the year ended June 30, 2012 included the following:

- The new Terminal C building with an approximate cost of \$212,563 was completed and placed into service.
- The new Parking Structure C with an approximate cost of \$58,870 was completed and placed into service.
- Completion of the construction for the new North Commuter Holdroom at an approximate cost of \$5,552.
- Completion of the Common Use Passenger Processing System (CUPPS) at an approximate cost of \$27,468.
- The addition of 20 Passenger Loading Bridges at an approximate cost of \$11,840.
- Completion of the Baggage Handling System in Terminal C at an approximate cost of \$14,761.
- The new Parking Access and Revenue Control System was placed into service at an approximate cost of \$12,275.

At June 30, 2013, the Airport was committed under contracts for construction projects in amount of \$16,170. The construction costs may include capitalized interest. For additional information regarding capitalization of interest, refer to Note 1, Reporting Entity and Summary of Significant Accounting Policies.

Long-Term Debt

At June 30, 2013 and 2012, the Airport had total bonded debt outstanding of \$240,541 and \$248,900, respectively, excluding compensated absences and other liabilities. The debt is secured by a pledge of operating revenues, net of specified operating expenses, interest earnings, other miscellaneous revenue and available PFC revenue.

The following summarizes the Airport's outstanding bonds at June 30, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> | <u>2013 vs 2012</u> <u>% Change</u> | <u>2011</u> | <u>2012 vs 2011</u> <u>% Change</u> |
|--|-------------------|-------------------|--|-------------------|--|
| LONG-TERM DEBT OBLIGATIONS | | | | | |
| Airport Revenue Refunding Bonds, Series 2003 | \$ 23,685 | \$ 27,010 | (12.3) % | \$ 30,175 | (10.5) % |
| Airport Revenue Bonds, Series 2009A | 65,235 | 66,645 | (2.1) % | 66,985 | (0.5) % |
| Airport Revenue Bonds, Series 2009B | 152,825 | 157,340 | (2.9) % | 161,685 | (2.7) % |
| Add: Premium/(Discount) on Bonds Payable | (1,204) | (177) | 580.2 % | 392 | (145.2) % |
| Less: Deferred Amount on Refunding | - | (1,918) | (100.0) % | (2,555) | (24.9) % |
| TOTAL LONG-TERM DEBT OBLIGATIONS | <u>\$ 240,541</u> | <u>\$ 248,900</u> | <u>(3.4) %</u> | <u>\$ 256,682</u> | <u>(3.0) %</u> |

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(to the nearest thousand)**

Long-Term Debt (continued)

During the years ended June 30, 2013 and 2012, the decrease in the outstanding bonds was due to principal payments and amortization of bond premiums/discounts and the deferred amount on refunding. There were no changes to the Airport's underlying debt ratings as compared to the previous year.

The Airport maintains the following long-term underlying debt ratings:

| LONG-TERM DEBT RATINGS | <u>Standard & Poor's</u> | <u>Moody's</u> | <u>Fitch</u> |
|---|------------------------------|----------------|--------------|
| June, 30, 2013 | | | |
| Airport Revenue Refunding Bonds, Series 2003 | AA- | Aa3 | AA- |
| Airport Revenue Bonds, Series 2009A and 2009B | AA- | Aa3 | AA- |
| June, 30, 2012 | | | |
| Airport Revenue Refunding Bonds, Series 2003 | AA- | Aa3 | AA- |
| Airport Revenue Bonds, Series 2009A and 2009B | AA- | Aa3 | AA- |
| June, 30, 2011 | | | |
| Airport Revenue Refunding Bonds, Series 2003 | AA- | Aa3 | AA- |
| Airport Revenue Bonds, Series 2009A and 2009B | AA- | Aa3 | AA- |

Additional information on the Airport's long-term debt obligations can be found in Note 5, Long-Term Obligations.

Other Potentially Significant Matters

Grant Awards:

On September 11, 2013, the Airport was awarded an Airport Improvement Program grant from the Transportation Security Administration (TSA) in the maximum amount of \$4,029 for the Checked Baggage Recapitalization Screening construction project. On September 12, 2013, the Airport was awarded another Airport Improvement Program grant from the Federal Aviation Administration (FAA) in the maximum amount of \$1,365 for the Airport's perimeter road rehabilitation/reconstruction and runway re-designation. Both of the grants are reimbursement type grants.

Airport Improvement Program and Financial Planning:

Phase I of John Wayne Airport's \$543 million Airport Improvement Program, includes construction of a new multi-level 282,000 square foot terminal building (Terminal C) with six new commercial passenger gates, new security checkpoints, greater baggage screening capability and concessions. The project also includes construction of new permanent commuter/regional

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Other Potentially Significant Matters (continued)

Airport Improvement Program and Financial Planning (continued):

holdrooms at the north and south ends of the extended Terminal, replacement of passenger boarding bridges at all 14 existing gates in Terminals A and B, as well as other upgrades to Terminals A and B. As part of the Terminal C project, two gates in the existing Riley Terminal were modified to accommodate U.S. Customs and Border Protection (CBP) processing of international passengers. Construction of the South Remain Over Night (SRON) aircraft parking area, a major enabling project, was completed in 2009. A new parking structure (Parking Structure C) replaced Parking Structure B1, which was deconstructed in June 2009 to make way for Terminal C. The Central Utility Plant, opened in March 2011, which supports the production of chilled water for the air conditioning system and electric power for the entire Airport. Both Terminal C and Parking Structure C opened on November 14, 2011. Other capital expenditures included a state-of-the art Common Use Passenger Processing System (CUPPS) in Terminals A, B and C and a new Parking Access Revenue Control System (PARCS) was installed at all Airport parking structures.

Major projects in Phase II of the Airport Improvement Program, with a remaining budget of \$69 million, include construction of a new Maintenance Building, Roadway Seismic Retrofit, Parking Structure C Phase II, and other miscellaneous upgrades and improvements to existing facilities and infrastructure. The Maintenance Building and the Roadway Seismic Retrofit projects started in the year ended June 30, 2013 and are scheduled to be completed by the year ended June 30, 2014. Parking Structure C Phase II project will commence in 2014.

The financing plan for the estimated \$543 million was implemented pursuant to the comprehensive financial program approved by the Board in December 2005 (and updated in mid-2007). The capital costs are funded from various sources, including: (1) Airport revenues; (2) FAA Airport Improvement Program grants; (3) Transportation Security Administration (TSA) grants; (4) Passenger Facility Charges (PFC) revenues; and (5) airport revenue bonds. In July 2009, the County issued \$233,115 in Airport Revenue Bonds, Series 2009A and 2009B, to finance a portion of the AIP. Refer to Note 5, Long-term Obligation, for additional information on the bonds.

As is the case with any substantial capital improvement program, the Airport anticipates encountering many challenges in balancing the current level of operation and high standards for customer service with the substantial construction activity. For additional information related to construction or any other information provided in the report, refer to Airport's website at <http://www.ocair.com> or submit to JWA Finance, 3160 Airway Ave., Costa Mesa, CA 92626.

**JOHN WAYNE AIRPORT
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012
(to the nearest thousand)**

| | 2013 | 2012 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash (Note 2) | \$ 8,773 | \$ 2,334 |
| Pooled cash and investments with Treasurer (Note 2) | 85,864 | 101,114 |
| Cash equivalents/specific investments with Treasurer (Note 2) | 29,225 | 33,387 |
| Imprest cash (Note 2) | 14 | 14 |
| Accounts receivable | 5,632 | 5,141 |
| Interest receivable | 338 | 485 |
| Due from County of Orange (Note 11) | 15 | 565 |
| Due from other governmental agencies | 5,226 | 3,552 |
| Prepaid expenses | 3,019 | 2,683 |
| Debt issuance costs | 121 | 169 |
| | | |
| Current restricted assets: | | |
| Restricted cash and investments with trustee (Note 2) | 36,576 | 15,507 |
| Pooled cash and investments held for others (Note 2) | 737 | 1,152 |
| Pooled cash and investments with Treasurer (Note 2) | 54,195 | 46,652 |
| Passenger Facility Charges (PFC) receivable (Note 1) | 2,332 | 2,350 |
| Deposits in lieu of cash (Note 1) | 39,492 | 36,992 |
| Total current assets | 271,559 | 252,097 |
| | | |
| Noncurrent restricted assets: | | |
| Investments with trustee (Note 2) | 13,821 | 18,451 |
| | | |
| Capital assets (Note 10): | | |
| Land (Note 6) | 15,678 | 15,678 |
| Structures and Improvements (Note 6) | 720,703 | 682,697 |
| Equipment | 11,801 | 11,855 |
| Infrastructure - runways, taxiways and aprons | 213,934 | 212,705 |
| Construction in progress | 21,348 | 45,966 |
| Intangible assets in progress | 418 | -- |
| Less accumulated depreciation (Note 6) | (379,967) | (350,865) |
| Total capital assets | 603,915 | 618,036 |
| | | |
| Other noncurrent assets: | | |
| Specific investments with Treasurer (Note 2) | 20,495 | 16,352 |
| Debt issuance costs | 1,392 | 1,616 |
| Total noncurrent assets | 639,623 | 654,455 |
| | | |
| TOTAL ASSETS | \$ 911,182 | \$ 906,552 |

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2013 AND 2012
(to the nearest thousand)**

| | 2013 | 2012 |
|---|-------------------|-------------------|
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 7,539 | \$ 12,478 |
| Salaries payable | 808 | 770 |
| Interest payable | 6,039 | 6,211 |
| Unearned revenue | 2,358 | 2,294 |
| Due to County of Orange (Note 11) | 2,541 | 2,527 |
| Due to other governmental agencies | 577 | 535 |
| Pollution remediation obligation (Note 5 and 13) | -- | 98 |
| Compensated employee absences (Note 5) | 1,061 | 1,131 |
| Current liabilities payable from restricted assets: | | |
| Arbitrage rebate payable (Note 5) | 196 | -- |
| Bonds payable, net of deferred amounts on refundings and premiums (Note 5) | 30,738 | 9,207 |
| Deposits from others | 40,229 | 38,134 |
| Total current liabilities | 92,086 | 73,385 |
| Noncurrent liabilities: | | |
| Arbitrage rebate payable (Note 5) | -- | 149 |
| Pollution remediation obligation (Note 5 and 13) | 1,124 | 1,110 |
| Compensated employee absences (Note 5) | 1,210 | 1,283 |
| Bonds payable, net of deferred amounts on refundings and premiums (Note 5) | 209,803 | 239,693 |
| Total noncurrent liabilities | 212,137 | 242,235 |
| TOTAL LIABILITIES | 304,223 | 315,620 |
| NET POSITION | | |
| Net investment in capital assets | 380,168 | 380,330 |
| Restricted for debt service | 25,907 | 9,296 |
| Restricted for PFC (Note 1) | 55,331 | 47,853 |
| Restricted for capital projects - replacements and renewals | 1,000 | 1,000 |
| Unrestricted | 144,553 | 152,453 |
| TOTAL NET POSITION | \$ 606,959 | \$ 590,932 |

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

| | 2013 | 2012 |
|---|-------------|-------------|
| OPERATING REVENUES | | |
| Terminal space rental | \$ 19,287 | \$ 23,718 |
| Auto parking | 37,908 | 35,842 |
| Concessions | 25,504 | 25,145 |
| Landing fees | 14,536 | 12,561 |
| Revenue from use of property | 12,599 | 9,475 |
| Charges for services | 2,997 | 3,246 |
| Aircraft tiedown fees | 1,462 | 1,477 |
| Total operating revenues | 114,293 | 111,464 |
| OPERATING EXPENSES | | |
| Professional and specialized services | 36,337 | 34,426 |
| Salaries and employee benefits | 18,645 | 18,680 |
| Other services and supplies | 24,938 | 24,708 |
| Depreciation | 29,710 | 20,985 |
| Total operating expenses | 109,630 | 98,799 |
| Operating income | 4,663 | 12,665 |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income (Note 1) | 811 | 986 |
| Interest expense (Note 1) | (12,557) | (6,295) |
| Bankruptcy settlement proceeds | 562 | 611 |
| Fines and penalties | 195 | 248 |
| Other revenue (expense) - net | 60 | (692) |
| PFC revenue | 18,454 | 17,500 |
| Total nonoperating revenues (expenses) | 7,525 | 12,358 |
| INCOME BEFORE CONTRIBUTIONS | 12,188 | 25,023 |
| Capital grant contributions | 3,839 | 3,912 |
| CHANGES IN NET POSITION | 16,027 | 28,935 |
| TOTAL NET POSITION BEGINNING OF YEAR | 590,932 | 561,997 |
| TOTAL NET POSITION END OF YEAR | \$ 606,959 | \$ 590,932 |

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 113,382 | \$ 112,190 |
| Payments to suppliers for goods and services | (60,372) | (59,322) |
| Payments to employees for services | (19,087) | (17,921) |
| Internal activity - receipts from (payments to) other funds | 564 | (167) |
| Other receipts | 887 | 718 |
| Net cash provided by operating activities | <u>35,374</u> | <u>35,498</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Intergovernmental revenues | 182 | 155 |
| Net cash provided by noncapital financing activities | <u>182</u> | <u>155</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Acquisition and construction of capital assets | (21,101) | (85,406) |
| Principal payments on long-term debt | (9,250) | (7,850) |
| Interest paid on long-term debt (Note 1) | (12,250) | (12,592) |
| Proceeds from capital grant contributions | 2,311 | 4,457 |
| Proceeds from sale of capital assets | 41 | 15 |
| Receipts from PFC | 18,472 | 17,162 |
| Net cash used in capital and related financing activities | <u>(21,777)</u> | <u>(84,214)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Sales (purchases) of investments, net | 487 | (3,067) |
| Interest received on investments | 958 | 1,149 |
| Net cash provided (used) by investing activities | <u>1,445</u> | <u>(1,918)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 15,224 | (50,479) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>200,160</u> | <u>250,639</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 215,384</u> | <u>\$ 200,160</u> |

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

| | 2013 | 2012 |
|---|-------------------|-------------------|
| RECONCILIATION OF OPERATING INCOME TO NET | | |
| CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 4,663 | \$ 12,665 |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Depreciation | 29,710 | 20,985 |
| Fines and penalties | 195 | 248 |
| Other revenue | 754 | 482 |
| (INCREASES) DECREASES IN ASSETS: | | |
| Accounts receivable | (491) | (692) |
| Due from County of Orange | 550 | (565) |
| Due from other governmental agencies | (146) | -- |
| Prepaid expenses | (336) | 692 |
| Deposits in lieu of cash | (2,500) | (8,680) |
| INCREASES (DECREASES) IN LIABILITIES: | | |
| Accounts payable | 902 | (196) |
| Salaries payable | 38 | 63 |
| Unearned revenue | 64 | 1,009 |
| Due to County of Orange | 14 | 398 |
| Due to other governmental agencies | 42 | 535 |
| Compensated employee absences | (143) | 12 |
| Deposits from others | 2,095 | 8,666 |
| Arbitrage rebate payable | 47 | 42 |
| Pollution remediation obligation | (84) | (166) |
| Net cash provided by operating activities | \$ 35,374 | \$ 35,498 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION | | |
| Cash | \$ 8,773 | \$ 2,334 |
| Pooled cash and investments | 85,864 | 101,114 |
| Restricted pooled cash and investments held for others | 737 | 1,152 |
| Restricted pooled cash and investments with Treasurer | 54,195 | 46,652 |
| Imprest cash | 14 | 14 |
| Investments with Treasurer | 49,720 | 49,739 |
| Restricted investments with trustee | 50,397 | 33,958 |
| Total | 249,700 | 234,963 |
| Less: Investments with original maturities of three months or more | (34,316) | (34,803) |
| TOTAL CASH AND CASH EQUIVALENTS | \$ 215,384 | \$ 200,160 |
| NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES | | |
| Acquisition of capital assets with accounts payable | \$ 3,201 | \$ 9,042 |
| Acquisition of capital assets with capitalized interest payable | -- | 6,211 |
| Change in fair value of investments not considered cash or cash equivalents | (121) | (47) |
| Accrued capital grant contribution receivable | 4,898 | 3,370 |

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

The Orange County Airport began operations in 1941. Commercial jet service at an expanded airport with a new terminal, larger operations area and extended runway began in 1967. In 1979, the Orange County Airport was renamed John Wayne Airport, Orange County (Airport).

The Airport is operated as a department of the County of Orange, California (County), and is accounted for as a self-supporting enterprise fund in the basic financial statements of the County. The financial statements presented herein represent the financial position and changes in financial position and cash flows of the Airport only and are not intended to present the financial position, changes in financial position or the cash flows of the County in conformity with accounting principles generally accepted in the United States of America.

A variety of federal, state and local laws, agreements and regulations govern operations at the Airport. The Federal Aviation Administration (FAA) has jurisdiction over flying operations generally, including personnel, aircraft, ground facilities and other technical matters, as well as certain environmental matters. Pursuant to the Airport and Airway Improvement Act of 1982 and other statutes, the County is constrained from transferring Airport revenues to its General Fund; this restriction is embodied in the federal grant agreements entered into by the County. Additionally, federal law governs the reasonableness of fees that may be charged for use of Airport facilities, further governs Airport noise and capacity limits, and imposes certain other restrictions on the County and Airport operations.

In 1985, a Settlement Agreement (Agreement) was reached between the County, the City of Newport Beach (City) and two community groups on a new, 20-year Airport Master Plan (Plan). This Plan provided for a new, enclosed passenger terminal with 14 passenger-loading bridges, baggage system, parking structures, airfield improvements and other Airport enhancements. In addition, strict noise and capacity regulations were imposed on the Airport's flight operations. Additional flight operations were permitted under the Plan and the cap on total passengers served was raised to 8.4 million annual passengers (MAP).

Financed by \$242,440 of revenue bonds, construction on the new terminal and other Airport facilities began in 1987. In September 1990, the Thomas F. Riley Terminal opened to the public.

In December 2000, the Board of Supervisors (Board) directed the Airport to work with the City to identify and evaluate the ramifications of extending and/or modifying the Agreement. Environmental Impact Report (EIR) 582 was drafted and outlined a number of long-term facility and capacity alternatives for the Airport. On June 25, 2002, the Board certified EIR 582 and authorized amendments to the Agreement.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (continued)

Description of Reporting Entity (continued)

Subsequent to June 25, 2002, the parties to the Agreement agreed to modifications to the amended Agreement. On December 10, 2002, the Board accepted Addendum 582-1 to EIR 582, approving modifications to the amended Agreement.

The amended Agreement enhances capacity at the Airport by increasing: (i) the number of regulated flights through December 31, 2015 (both passenger and cargo); (ii) the number of passengers to 10.3 MAP through December 31, 2010 and to 10.8 MAP from January 1, 2011 through December 31, 2015; and (iii) the number of gates equipped with passenger loading bridges from 14 to 20.

The Airport derives revenues primarily from landing fees, terminal space rental, auto parking, concessions, and aircraft tiedown fees. The Airport's major expenses include professional and specialized services for security, fire protection, parking management, revenue bond debt service, salaries and employee benefits, and other expenses such as maintenance, insurance and utilities.

Basis of Presentation - Fund Accounting

The operations of the Airport are accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting and Estimates

The Airport prepares its financial statements on the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP), which provides that revenues are recorded when earned and expenses are recorded when incurred. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations.

The principal operating revenues of the Airport's enterprise fund are charges to customers for use of property and for services provided. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets including infrastructure assets, purchased or constructed by the Airport are capitalized at cost, while contributed properties are recorded at fair value when received. Assets are capitalized when the original unit cost is equal to or greater than the County's capitalization threshold of \$5 for equipment, \$150 for structures and improvements, \$150 for intangible assets, \$0 for infrastructure and \$0 for land. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets, which range from 3 to 20 years for equipment and 15 to 45 years for infrastructure and structures. No depreciation or amortization is provided on construction in progress or intangible assets in progress until construction is completed or software is developed and the asset is placed in service.

Capitalization of Interest

Interest incurred during the construction phase is included as part of the capitalized value of the capital assets constructed. In the case of capital acquisitions financed by externally restricted tax-exempt debt, the amount of interest capitalized is calculated by netting interest expense on a borrowing against related interest earnings on the reinvested unexpended debt proceeds. During the year ended June 30, 2013, capital assets under construction financed by externally restricted tax-exempt debt were completed. For the year ended June 30, 2012, the total interest expense and interest revenue were \$5,059 and \$190, respectively, and the net amount of \$4,869 was included as part of the cost of capital assets. For capital acquisitions financed by existing resources, the total interest expense incurred and the amount included as part of the cost of capital assets under construction for the years ended June 30, 2013 and 2012 were \$684 and \$1,332, respectively.

Premiums/Discounts, Deferred Refunding Amounts and Issuance Costs

Bond premiums and discounts as well as issuance costs and deferred amounts on refundings, are deferred and amortized over the term of the bond using the effective interest rate method.

Deposits in Lieu of Cash

The Airport requires security deposits from airport lease agreement operators and renters. These security deposits are comprised primarily of negotiable instruments and are held with a financial institution.

Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments, which are readily convertible to cash or mature within 90 days of the original purchase.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (continued)

Pooled Cash and Investments

Pooled cash and investments and investments with trustee are stated at fair value. Pooled cash and investments and pooled cash and investments held for others are funds the Airport has on deposit with the Orange County Treasurer's (Treasurer) County Investment Pool (the Pool). These funds are invested in accordance with the Board approved Investment Policy Statement (IPS). The Treasurer allocates interest earned on the pooled cash and investments to the Airport monthly based on average daily balances on deposit with the Treasurer.

Investments with Treasurer

The Treasurer credits interest earned on investments directly to the Airport. The investments are stated at fair value.

Self-Insurance

Liability, property and business interruption insurance is purchased by the County to provide insurance coverage for the Airport for a total insurable value amount of \$924,948. The related insurance premium is recorded as an Airport expense. The Airport also participates in the County's self-insured programs for general and automobile liability insurance, workers' compensation, group health indemnified insurance plans, group salary continuance plan, group dental plan and unemployment benefits plan. The Airport records its portion of the related self-insurance premiums charged by the County as an expense. The related liabilities are accrued by the County's self-insurance internal service fund based on estimated future amounts to be paid on known claims and incurred but not reported claims, including loss adjustment expenses.

Compensated Employee Absences

Compensated employee absences (vacation, compensatory time off, annual leave and sick leave) are accrued as an expense and liability when earned.

Components of Net Position

Net investment in capital assets - This amount is derived by subtracting the outstanding debt incurred by the Airport to buy or construct capital assets shown in the Statement of Net Position. Capital assets cannot readily be sold and converted to cash.

Restricted - This category represents restrictions imposed on the use of the Airport's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. As of June 30, 2013 and 2012, the Airport reported restricted net position of \$82,238 and \$58,149, respectively, for debt service, Passenger Facility Charges and replacements and renewals, of which \$55,331 and \$47,853 was restricted by enabling legislation, respectively.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (continued)

Components of Net Position (continued)

Unrestricted - This category consists of net position that does not meet the definition of net investment in capital assets or restricted.

Policy Regarding Use of Restricted vs. Unrestricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Airport will utilize restricted resources first, and then unrestricted resources as needed.

Passenger Facility Charges

In 1990, the Aviation Safety and Capacity Expansion Act authorized the imposition of local Passenger Facility Charges (PFC) and use of resulting PFC revenue for allowable costs on FAA approved projects, including debt service.

The FAA approved the Airport's PFC application to collect \$4.50 per enplaned passenger effective July 1, 2006. The total approved PFC revenue to be collected is \$321,351 through December 31, 2021.

All PFC collected are restricted and are categorized as nonoperating revenues. PFC collected are maintained in an interest-bearing account administered by the Orange County Treasurer. Collected but unexpended PFC revenues are reported on the Airport's Statement of Net Position as current restricted assets, pooled cash and investments with Treasurer and pooled cash and investments with trustee. Related PFC receivables are also reported as current restricted assets.

During the years ended June 30, 2013 and 2012, \$18,454 and \$17,500 in PFC revenue was recorded and \$11,122 and \$11,436 was expended on FAA approved projects, respectively.

Note 2 – Cash and Investments

The Airport's investment policy guidelines allow for the same types of investments as the Board approved Pool policy. Types of investments allowed are U.S. Treasury securities, U.S. government agency securities, municipal debt, medium-term notes, bankers' acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements, and money market mutual funds. Investments maintained by trustees are governed by the related bond indentures.

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

Note 2 – Cash and Investments (continued)

Total Airport cash and investments at fair value as of June 30, 2013 and June 30, 2012 were as follows:

| | | |
|--|-------------------|-------------------|
| Cash and Pooled Cash and Investments: | 2013 | 2012 |
| Cash on hand | \$ 8,787 | \$ 2,348 |
| Pooled cash and investments | 140,796 | 148,918 |
| Total Cash and Pooled Cash and Investments | <u>149,583</u> | <u>151,266</u> |
| Investments: | | |
| With Treasurer | 49,720 | 49,739 |
| With Trustee | 50,397 | 33,958 |
| Total Investments | <u>100,117</u> | <u>83,697</u> |
| Total Cash and Investments | <u>\$ 249,700</u> | <u>\$ 234,963</u> |

Cash

Cash represents amounts held by the Airport in a separate, insured and fully collateralized bank account, which was established upon the authorization of the Board of Supervisors shortly following the County bankruptcy.

Investments with Treasurer

In December 1997, the Treasurer deposited \$45,000 of Airport monies in a separate custodial account pursuant to a Memorandum of Understanding between the Airport and the Treasurer. Monies on deposit are invested by the Treasurer in accordance with the Investment Policy Statement (IPS). Additional monies may periodically be deposited in the account.

The investment balance was \$49,720 and \$49,739 at June 30, 2013 and June 30, 2012 respectively, of which \$29,225 and \$33,387, respectively, are considered cash equivalents with original maturities of 90 days or less.

Pooled Cash and Investments

The Treasurer maintains the Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. Interest is apportioned to individual funds based generally on the average daily balances on deposit with the Treasurer.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Deposits and Investments with Trustee

Investments with trustee represent amounts held by a trustee bank that are restricted for use in either acquiring certain assets or servicing long-term debt of the Airport as required by the bond indentures. The trustee as fiscal agent is mandated by the bond indentures as to the government obligations in which the debt issuance proceeds can be invested. Investments with trustee are stated at fair value based on quoted market prices provided by the trustee's independent valuation service, except for Guaranteed Investment Contracts (GIC), which are stated at cost. Deposits held in the money market deposit accounts are insured by FDIC up to \$250.

Deposits and Investments

As of June 30, 2013, the Airport had the following deposits and investments:

| | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|---|-------------------|--|
| With Treasurer: | | |
| U.S. Government Agencies | \$ 36,856 | 0.10 |
| Negotiable Certificates of Deposit | 3,999 | 0.10 |
| Medium Term Notes | 7,241 | 0.44 |
| Money Market Mutual Funds | 1,624 | -- |
| Total investments with Treasurer | <u>\$ 49,720</u> | 0.14 * |
| With Trustee: | | |
| U.S. Treasuries | \$ 13,734 | 0.97 |
| Guaranteed Investment Contracts | 8,708 | -- |
| Money Market Mutual Funds | 15,707 | -- |
| Money Market Deposit Accounts | 12,248 | -- |
| Total deposits and investments with trustee | <u>\$ 50,397</u> | 0.26 * |

* Portfolio weighted average maturity

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

Note 2 – Cash and Investments (continued)

Deposits and Investments (continued)

As of June 30, 2012, the Airport had the following deposits and investments:

| | <u>Fair Value</u> | <u>Weighted Average Maturity (Years)</u> |
|---|-------------------|--|
| With Treasurer: | | |
| U.S. Government Agencies | \$ 36,495 | 0.14 |
| Commercial Paper | 4,139 | 0.07 |
| Negotiable Certificates of Deposit | 4,250 | 0.31 |
| Medium Term Notes | 2,956 | 0.38 |
| Money Market Mutual Funds | 398 | 0.01 |
| Municipal Debt | 1,501 | 0.09 |
| Total investments with Treasurer | <u>\$ 49,739</u> | 0.16 * |
| With Trustee: | | |
| U.S. Treasuries | \$ 13,734 | 0.74 |
| Guaranteed Investment Contracts | 8,621 | 1.01 |
| Money Market Mutual Funds | 133 | -- |
| Money Market Deposit Accounts | 11,470 | -- |
| Total deposits and investments with trustee | <u>\$ 33,958</u> | 0.56 * |

* Portfolio weighted average maturity

Interest Rate Risk

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. The County Treasurer manages exposure to declines in fair value by limiting the maximum maturity and weighted average maturity (WAM) in accordance with the IPS. At June 30, 2013 and 2012, the WAM for the Pool approximated 380 and 359 days, respectively, and for Investments with Treasurer approximated 53 and 57 days, respectively. Investments with Trustee are not limited in maturity as a portion is in guaranteed investment contracts.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Airport will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the Airport's external investment pools and specific investments did not have any securities exposed to custodial credit risk and there was no securities lending.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Credit Risk

The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations. For an issuer of short term debt, the rating must be no less than A-1 (Standard & Poor's), P-1 (Moody's), or F1 (Fitch). For an issuer of long-term debt, the rating must be no less than A.

Concentration of Credit Risk

The IPS also limits to no more than 5% of the total fair value of the Pool funds that may be invested in securities of any one issuer, except for obligations of the U.S. government, U.S. government agencies or government sponsored enterprises. No more than 10% may be invested in one money market mutual fund.

At June 30, 2013, the credit ratings of the Pool, specific investments with Treasurer, and investments with Trustee, and the related concentration of credit risk by investment type were as follows (NR means Not Rated):

| | <u>S&P</u> | <u>Moody's</u> | <u>Fitch</u> | <u>% of Total</u> |
|---|----------------|----------------|--------------|-------------------|
| <u>Pool Investments:</u> | | | | |
| U.S. Government Agencies | | | | |
| Federal National Mortgage Association Discount Notes | A-1 | P-1 | F1 | 5.78% |
| Federal National Mortgage Association Bonds | AA | Aaa | AAA | 16.63% |
| Federal Farm Credit Bank Bonds | AA | Aaa | AAA | 16.05% |
| Federal Home Loan Bank Discount Notes | A-1 | P-1 | F1 | 5.22% |
| Federal Home Loan Bank Bonds | AA | Aaa | AAA | 15.60% |
| Federal Home Loan Mortgage Corporation Discount Notes | A-1 | P-1 | F1 | 6.42% |
| Federal Home Loan Mortgage Corporation Bonds | AA | Aaa | AAA | 17.38% |
| Negotiable Certificates of Deposit | A-1 | P-1 | F1 | 2.87% |
| Medium-Term Corporate Notes | | | | |
| Corporate Notes | AA | Aa | AA | 2.79% |
| Corporate Notes | AAA | Aaa | AAA | 1.76% |
| Municipal Debt | A | NR | A | 1.79% |
| U.S. Treasuries | AA | Aaa | AAA | 3.71% |
| Money Market Mutual Funds | AAA | Aaa | NR | 4.00% |
| Total Pool | | | | <u>100.00%</u> |

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Concentration of Credit Risk (continued)

| <u>Specific Investments with Treasurer:</u> | <u>S&P</u> | <u>Moody's</u> | <u>Fitch</u> | <u>% of Total</u> |
|---|----------------|----------------|--------------|-------------------|
| U.S. Government Agencies | | | | |
| Federal National Mortgage Association Bonds | AA | Aaa | AAA | 20.98% |
| Federal Farm Credit Bank Bonds | AA | Aaa | AAA | 18.24% |
| Federal Home Loan Bank Bonds | AA | Aaa | AAA | 22.62% |
| Federal Home Loan Mortgage Corporation Bonds | AA | Aaa | AAA | 12.28% |
| Negotiable Certificates of Deposit | A-1 | P-1 | F1 | 8.04% |
| Medium Term Notes | | | | |
| Corporate Notes | AA | Aa | AA | 7.87% |
| Corporate Notes | AAA | Aaa | AAA | 6.69% |
| Money Market Mutual Funds | AAA | Aaa | NR | 3.28% |
| Total investments with Treasurer | | | | <u>100.00%</u> |
| | | | | |
| <u>Deposits and Investments With Trustee:</u> | | | | |
| U.S. Treasuries | AA | Aaa | AAA | 27.25% |
| Guaranteed Investment Contracts | NR | NR | NR | 17.28% |
| Money Market Mutual Funds | AAA | Aaa | AAA | 31.17% |
| Money Market Deposit Accounts | NR | NR | NR | 24.30% |
| Total investments with Trustee | | | | <u>100.00%</u> |

At June 30, 2012, the credit ratings of the Pool, specific investments with Treasurer, and investments with Trustee, and the related concentration of credit risk by investment type were as follows (NR means Not Rated):

| <u>Pool Investments:</u> | <u>S&P</u> | <u>Moody's</u> | <u>Fitch</u> | <u>% of Total</u> |
|--|----------------|----------------|--------------|-------------------|
| U.S. Government Agencies | | | | |
| Federal National Mortgage Association Bonds | AA | Aaa | AAA | 21.00% |
| Federal Farm Credit Bank Bonds | AA | Aaa | AAA | 11.80% |
| Federal Home Loan Bank Discount Notes | AA | Aaa | AAA | 3.26% |
| Federal Home Loan Bank Bonds | AA | Aaa | AAA | 19.30% |
| Federal Home Loan Mortgage Corporation Bonds | AA | Aaa | AAA | 16.83% |
| Commercial Paper | A-1 | P-1 | F1 | 2.12% |
| Negotiable Certificates of Deposit | | | | |
| Certificate of Deposit | A-1 | P-1 | F1 | 0.97% |
| Certificate of Deposit | AA | Aa | AA | 2.26% |
| Medium-Term Corporate Notes | | | | |
| Corporate Notes | AA | Aa | A | 6.79% |
| Corporate Notes | AAA | Aaa | AA | 0.47% |
| Municipal Debt | A | A | A | 2.85% |
| U.S. Treasuries | AA | Aaa | AAA | 4.50% |
| Money Market Mutual Funds | AAA | Aaa | AAA | 7.85% |
| Total Pool | | | | <u>100.00%</u> |

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

Note 2 – Cash and Investments (continued)

Concentration of Credit Risk (continued)

| With Treasurer: | <u>S&P</u> | <u>Moody's</u> | <u>Fitch</u> | <u>% of Total</u> |
|---|----------------|----------------|--------------|-------------------|
| U.S. Government Agencies | | | | |
| Federal National Mortgage Association Bonds | AA | Aaa | AAA | 22.54% |
| Federal Farm Credit Bank | AA | Aaa | AAA | 18.95% |
| Federal Home Loan Bank Bonds | AA | Aaa | AAA | 21.92% |
| Federal Home Loan Bank Discount Notes | AA | Aaa | AAA | 2.71% |
| Federal Home Loan Mortgage Corporation Bonds | AA | Aaa | AAA | 5.57% |
| Federal Home Loan Mortgage Corporation Discount Notes | AA | Aaa | AAA | 1.68% |
| Commercial Paper | A-1 | P-1 | F1 | 8.33% |
| Negotiable Certificates of Deposit | | | | |
| Certificate of Deposit | A-1 | P-1 | F1 | 4.02% |
| Certificate of Deposit | AA | Aa | AA | 4.52% |
| Medium Term Notes | | | | |
| Corporate Notes | AA | Aa | A | 5.94% |
| Municipal Debt | A | Aa | NR | 3.02% |
| Money Market Mutual Funds | AAA | Aaa | AAA | 0.80% |
| Total investments with Treasurer | | | | <u>100.00%</u> |
| <u>Deposits and Investments With Trustee:</u> | | | | |
| U.S. Treasuries | AA | Aaa | AAA | 40.44% |
| Guaranteed Investment Contracts | NR | NR | NR | 25.39% |
| Money Market Mutual Funds | AAA | Aaa | NR | 0.39% |
| Money Market Deposit Accounts | NR | NR | NR | 33.78% |
| Total investments with Trustee | | | | <u>100.00%</u> |

Note 3 – Defined Benefit Pension Plan

Plan: All full-time employees of the Airport participate in the Orange County Employees Retirement System (OCERS), which is a cost-sharing, multiple-employer, defined benefit pension plan.

OCERS provides for retirement, death, disability and cost-of-living benefits, and is subject to the provisions of the County Employees Retirement Law of 1937, California Government Code Section 31451 et. seq. (the Retirement Law). OCERS is an independent, defined-benefit retirement plan in which employees of the County participate. Under OCERS, each employee receives a defined benefit pension at retirement, that is, a specific amount per month determined in accordance with the Retirement Law, which amount is not dependent upon the amount of money credited to the employee's account at the time of retirement.

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

Note 3 – Defined Benefit Pension Plan (continued)

The OCERS Board does not set the benefit amounts. OCERS administers benefits that are set by the County Board of Supervisors through the collective bargaining process with County employees in accordance with the Retirement Law. The OCERS Board supervises the investment of OCERS assets and the distribution of benefits to retired employees. The OCERS Board also determines the annual contributions required of the County and other participating local governmental entities to fund OCERS. Such annual contributions consist primarily of two components: the “normal cost” contribution and the amortized portion of the “unfunded actuarial accrued liability” (the UAAL) contribution, to the extent an UAAL exists.

The Retirement Law requires an actuarial valuation to be performed at least once every three years. OCERS practice has been to conduct an actuarial valuation annually as of December 31, which is the end of the OCERS fiscal year.

OCERS issues an audited stand-alone annual financial report, which can be obtained online at www.ocers.org, in writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701, or by calling (714) 558-6200.

Funding Policy: In accordance with various Board of Supervisors’ resolutions, the County’s funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. For the years ended June 30, 2013 and 2012, the employer’s contribution rate as a percentage of covered payroll for General Members was 28.37% and 27.11%, respectively.

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. Base employee contributions are calculated using a formula defined in the Retirement Law. In the 1997 Ventura decision of the California Supreme Court, the Court stated that for the purpose of calculating pension benefits, “final compensation” can mean not only base salaries, but also other components. Orange County employee contributions under current contracts are calculated on base salary, eligible premium pay and some categories of overtime as defined in the 1997 Ventura decision.

As an enterprise fund of the County of Orange, the Airport’s annual required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

| <u>For Year Ended June 30,</u> | <u>Annual Required Contribution</u> | <u>Percentage Contributed</u> |
|--------------------------------|-------------------------------------|-------------------------------|
| 2011 | \$ 2,872 | 100% |
| 2012 | 2,897 | 100% |
| 2013 | 2,969 | 100% |

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
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Note 3 – Defined Benefit Pension Plan (continued)

For additional details on the defined benefit pension plan and actuarial assumptions refer to the County’s Comprehensive Annual Financial Report (CAFR). The CAFR is available by accessing the Auditor-Controller’s website at <http://ac.ocgov.com>.

Note 4 – Postemployment Health Care Benefits

Plan: The Airport is a participant in the County of Orange’s Retiree Medical Plan. The Retiree Medical Plan is a single employer defined benefit Other Post Employment Benefit (OPEB) plan, intended to assist career employees in maintaining health insurance coverage following retirement from County service. Eligible retired County employees receive a monthly grant (the Grant), which helps offset the cost of monthly County-offered health plan and/or Medicare A and/or B premiums.

In order to be eligible to receive the Grant upon retirement, the employee must have completed at least 10 years of continuous County service (although exceptions for disability retirements exist), be enrolled in a County sponsored health plan and/or Medicare, qualify as a retiree as defined by the Retiree Medical Plan and be able to receive a monthly benefit payment from OCERS. To qualify as a retiree as defined by the Retiree Medical Plan, the employee upon retirement must be at least 50 years of age or have at least 20 years of service for a safety member of OCERS or at least 30 years of service for a general member of OCERS.

In addition to the Grant, the Retiree Medical Plan provides a frozen lump sum payment to terminated employees not eligible for the Grant. The frozen lump sum payment is equal to 1% of the employee’s final average hourly pay (as defined in the plan) multiplied by the employee’s qualifying hours of service (as defined) since the Retiree Medical Plan’s effective date.

Funding Policy: As an enterprise fund of the County of Orange, the Airport was required to contribute 3.8% of its payroll for the year ended June 30, 2013. The Airport’s required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

| <u>For Year Ended June 30,</u> | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
|--------------------------------|------------------------------|-------------------------------|
| 2011 | \$ 322 | 100% |
| 2012 | 327 | 100% |
| 2013 | 473 | 100% |

For additional details on the Retiree Medical Plan, actuarial assumptions, funded status of the plan and required supplemental information refer to the County’s Comprehensive Annual Financial Report (CAFR). The CAFR is available by accessing the Auditor-Controller’s website at <http://ac.ocgov.com>.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 5 – Long-Term Obligations

General

The Airport has outstanding bonds, issued primarily to fund the Airport Improvement Program (AIP). These bonds are payable solely from revenues of the Airport and are not general obligations of the County. Substantially all the excess of revenues over current expenses of the Airport is pledged for the repayment of these bonds. Interest is payable semi-annually on July 1 and January 1. The bond indenture agreement requires the Airport to deposit monthly with the trustee 1/12th of the principal amount of bonds maturing on the next July 1 and 1/6th of the interest payable on the next ensuing interest payment date.

GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, requires that for current refundings and advance refundings resulting in defeasance of debt reported by proprietary activities, the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense.

Airport Revenue Refunding Bonds, Series 2003

In July 1987, the Airport issued in the principal amount of \$242,440 Airport Revenue Bonds, Series 1987 (1987 Bonds) to finance the construction of new facilities at John Wayne Airport. In July 1993, the County issued in the principal amount of \$79,755 Airport Revenue Refunding Bonds, Series 1993 (1993 Bonds) to partially refund the 1987 Bonds. In April 1997, the County issued in the principal amount of \$135,050 Airport Revenue Refunding Bonds, Series 1997 (1997 Bonds) to complete a forward refunding of the majority of outstanding 1987 Bonds. On July 1, 1997, the County called and redeemed the remaining 1987 Bonds, not otherwise refunded or redeemed, in the amount of \$28,410. On July 1, 2009, the County called and redeemed the outstanding carrying principal balance of 1997 Bonds, in the amount of \$44,155.

On May 29 2003, the Airport issued the Airport Revenue Refunding Bonds, Series 2003 (2003 Bonds) in the amount of \$48,680 with interest rates ranging from 2.50% to 5.00% to refund \$65,250 of outstanding 1993 Revenue Bonds. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,828. This difference, reported in the accompanying financial statements as a deferred amount on refunding of 2003 Revenue Bonds, is being charged to operations using the effective interest method. The 2003 Bonds are scheduled to be called for redemption on July 1, 2013. The outstanding carrying principal amount as of June 30, 2013 was \$23,685 and was classified as a current liability in the Statement of Net Position. As of June 30, 2013, the outstanding interest was \$583. Refer to Note 14 Subsequent Event for additional information.

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
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Note 5 – Long-Term Obligations (continued)

The 2003 Bonds are secured by a pledge of (1) operating revenues, net of specified expenses, (2) interest earnings, and (3) other miscellaneous revenue. The 2003 Bonds are payable through July 2018 and can be called for redemption on July 1, 2013. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the year ended June 30, 2013, the principal and interest paid and total net revenues were \$4,574 and \$36,033, respectively.

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of \$233,115, with an original issue net premium of \$288 and interest rates ranging from 3.00% to 5.75%. The 2009A and 2009B Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds and pay costs relating to the issuance of the bonds. The AIP consist of numerous direct improvements to the Airport facilities such as the construction of the new Terminal C, Parking Structure C, and two new commuter/regional holdrooms at the north and south ends of the extended Terminal. As of June 30, 2013, the outstanding principal amount, including net premium, of the 2009A and 2009B Bonds were \$64,170 and \$152,686, and the outstanding interest were \$51,961 and \$90,287, respectively.

The 2009A and 2009B Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses, (2) interest earnings, (3) other miscellaneous revenue and (4) available Passenger Facility Charges (PFC) revenue. The 2009A and 2009B Bonds are payable through July 2039. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the year ended June 30, 2013, the principal and interest paid and total net revenues were \$16,926 and \$47,227, respectively. The total net revenues include \$11,194 available PFC revenue.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 5 – Long-Term Obligations (continued)

Revenue bonds outstanding and related activity for the year ended June 30, 2013, were as follows:

| | Balance at July 1, 2012 | Additions | Deductions | Balance at June 30, 2013 | Due in 1 year |
|----------------------------------|----------------------------|--------------|-------------------|-----------------------------|------------------|
| <u>Airport Revenue Refunding</u> | | | | | |
| Bonds Series 2003 | \$ 27,010 | \$ -- | \$ (3,325) | \$ 23,685 | \$ 23,685 |
| Bond Premium | 746 | -- | (746) | -- | -- |
| Deferred Amount on Refunding | (1,918) | -- | 1,918 | -- | -- |
| <u>Airport Revenue Bonds</u> | | | | | |
| Series 2009A | 66,645 | -- | (1,410) | 65,235 | 1,450 |
| Bond Premium/(Discount) | (1,052) | -- | (13) | (1,065) | 8 |
| <u>Airport Revenue Bonds</u> | | | | | |
| Series 2009B | 157,340 | -- | (4,515) | 152,825 | 5,340 |
| Bond Premium/(Discount) | 129 | -- | (268) | (139) | 255 |
| Total | <u>\$ 248,900</u> | <u>\$ --</u> | <u>\$ (8,359)</u> | <u>\$ 240,541</u> | <u>\$ 30,738</u> |

Revenue bonds outstanding and related activity for the year ended June 30, 2012, were as follows:

| | Balance at July 1, 2011 | Additions | Deductions | Balance at June 30, 2012 | Due in 1 year |
|----------------------------------|----------------------------|--------------|-------------------|-----------------------------|------------------|
| <u>Airport Revenue Refunding</u> | | | | | |
| Bonds Series 2003 | \$ 30,175 | \$ -- | \$ (3,165) | \$ 27,010 | \$ 3,325 |
| Bond Premium | 993 | -- | (247) | 746 | 206 |
| Deferred Amount on Refunding | (2,555) | -- | 637 | (1,918) | (530) |
| <u>Airport Revenue Bonds</u> | | | | | |
| Series 2009A | 66,985 | -- | (340) | 66,645 | 1,410 |
| Bond Premium/(Discount) | (1,027) | -- | (25) | (1,052) | 13 |
| <u>Airport Revenue Bonds</u> | | | | | |
| Series 2009B | 161,685 | -- | (4,345) | 157,340 | 4,515 |
| Bond Premium/(Discount) | 426 | -- | (297) | 129 | 268 |
| Total | <u>\$ 256,682</u> | <u>\$ --</u> | <u>\$ (7,782)</u> | <u>\$ 248,900</u> | <u>\$ 9,207</u> |

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 5 – Long-Term Obligations (continued)

The following is a schedule of debt service payments to maturity on an annual basis:

| Year Ending June 30, | 2003 Bonds | | 2009A Bonds | | 2009B Bonds | | Total |
|----------------------|-----------------|---------------|-----------------|-----------------|------------------|------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest | |
| 2014 | \$23,685 | \$ 583 | \$ 1,450 | \$ 3,215 | \$ 5,340 | \$ 7,595 | \$ 41,868 |
| 2015 | -- | -- | 1,495 | 3,171 | 5,500 | 7,432 | 17,598 |
| 2016 | -- | -- | 1,540 | 3,121 | 5,665 | 7,218 | 17,544 |
| 2017 | -- | -- | 1,595 | 3,062 | 5,935 | 6,937 | 17,529 |
| 2018 | -- | -- | 1,655 | 2,989 | 6,225 | 6,633 | 17,502 |
| 2019-2023 | -- | -- | 9,545 | 13,660 | 36,045 | 28,143 | 87,393 |
| 2024-2028 | -- | -- | 12,270 | 10,856 | 46,265 | 17,392 | 86,783 |
| 2029-2033 | -- | -- | 13,255 | 7,525 | 26,965 | 6,042 | 53,787 |
| 2034-2038 | -- | -- | 15,185 | 3,977 | 10,075 | 2,639 | 31,876 |
| 2039-2040 | -- | -- | 7,245 | 385 | 4,810 | 256 | 12,696 |
| Total | \$23,685 | \$ 583 | \$65,235 | \$51,961 | \$152,825 | \$ 90,287 | \$384,576 |

Other long-term liability activity for the years ended June 30, 2013 and 2012, respectively, were as follows:

| | Balance at July 1, 2012 | Additions | Deductions | Balance at June 30, 2013 | Due in 1 year |
|--|----------------------------|-----------------|-------------------|-----------------------------|------------------|
| Other Long-Term Liabilities: | | | | | |
| Compensated Employee Absences | \$ 2,414 | \$ 1,567 | \$ (1,710) | \$ 2,271 | \$ 1,061 |
| Arbitrage Rebate Payable | 149 | 47 | -- | 196 | 196 |
| Pollution Remediation Obligation | 1,208 | -- | (84) | 1,124 | -- |
| Total Other Long-Term Liabilities | \$ 3,771 | \$ 1,614 | \$ (1,794) | \$ 3,591 | \$ 1,257 |

| | Balance at July 1, 2011 | Additions | Deductions | Balance at June 30, 2012 | Due in 1 year |
|--|----------------------------|-----------------|-------------------|-----------------------------|------------------|
| Other Long-Term Liabilities: | | | | | |
| Compensated Employee Absences | \$ 2,402 | \$ 1,689 | \$ (1,677) | \$ 2,414 | \$ 1,131 |
| Arbitrage Rebate Payable | 107 | 42 | -- | 149 | -- |
| Pollution Remediation Obligation | 1,374 | -- | (166) | 1,208 | 98 |
| Total Other Long-Term Liabilities | \$ 3,883 | \$ 1,731 | \$ (1,843) | \$ 3,771 | \$ 1,229 |

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 6 – Property Leased to Others

The Airport leases a portion of its capital assets under noncancelable operating lease agreements for airline operations, concessions and other commercial purposes. The cost and carrying value of the Airport’s property under operating leases as of June 30, 2013 was the following:

| | Cost of leased property | Accumulated depreciation of leased property | Total carrying value of leased property |
|-----------------------------|----------------------------|---|--|
| Structures and Improvements | \$ 64,667 | \$ (12,238) | \$ 52,429 |
| Land | 2,430 | -- | 2,430 |
| Balance at June 30, 2013 | <u>\$ 67,097</u> | <u>\$ (12,238)</u> | <u>\$ 54,859</u> |

The cost and carrying value of the Airport’s property under operating leases as of June 30, 2012 was the following:

| | Cost of leased property | Accumulated depreciation of leased property | Total carrying value of leased property |
|-----------------------------|----------------------------|---|--|
| Structures and Improvements | \$ 62,024 | \$ (11,503) | \$ 50,521 |
| Land | 2,430 | -- | 2,430 |
| Balance at June 30, 2012 | <u>\$ 64,454</u> | <u>\$ (11,503)</u> | <u>\$ 52,951</u> |

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2013 are as follows:

| <u>Year Ending June 30,</u> | <u>Future Minimum Rent</u> |
|-----------------------------|----------------------------|
| 2014 | \$ 47,874 |
| 2015 | 48,162 |
| 2016 | 35,851 |
| 2017 | 23,865 |
| 2018 | 23,224 |
| 2019-2023 | 33,227 |
| 2024-2028 | 1,116 |
| Total | <u>\$ 213,319</u> |

Airline minimum rental revenues are based on rates adopted by the County’s Board of Supervisors and are subject to change semi-annually in accordance with the related airlines’ operating lease agreements. Concession minimum rental revenues are adjusted annually as outlined in the lessees’ operating leases.

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 6 – Property Leased to Others (continued)

The Airport also leases property through contingent rentals. Revenues from these contingent rentals arise primarily from a percentage of the lessees’ gross revenues. Contingent rental payments received by the Airport totaled \$27,168 and \$22,688 for the years ended June 30, 2013 and 2012, respectively.

Note 7 – Commitments under Operating Leases

Lease expense was \$234 and \$399 for the years ended June 30, 2013 and 2012, respectively. As of June 30, 2013, there was \$72 in outstanding lease commitments.

Note 8 – Related Party Transactions

The Airport reimburses the County for the cost of providing security, insurance and other administrative services to the Airport. Amounts charged by other County departments are reported as operating expenses during the year incurred, and totaled \$21,657 and \$21,299 for the years ended June 30, 2013 and 2012, respectively.

Note 9 – Contingencies and Commitments

Commitments

At June 30, 2013, the Airport was committed under contracts for the following construction projects:

| | |
|---|------------------|
| Design and Construction of Maintenance Building | \$ 7,522 |
| Perimeter Road West Reconstruction | 5,463 |
| Terminal C | 1,052 |
| Other | 2,133 |
| | <u>\$ 16,170</u> |

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 10 – Changes in Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

| | Balance at June 30, 2012 | Additions | Deductions | Adjustments | Balance at June 30, 2013 |
|---------------------------------------|-----------------------------|------------------|--------------------|--------------|-----------------------------|
| Capital assets, not depreciated: | | | | | |
| Land | \$ 15,678 | \$ -- | \$ -- | \$ -- | \$ 15,678 |
| Construction in progress | 45,966 | 14,889 | (39,507) | -- | 21,348 |
| Intangible Assets in progress | -- | 418 | -- | -- | 418 |
| Total capital assets, not depreciated | <u>61,644</u> | <u>15,307</u> | <u>(39,507)</u> | <u>--</u> | <u>37,444</u> |
| Capital assets, depreciated: | | | | | |
| Structures and Improvements | 682,697 | 37,934 | -- | 72 | 720,703 |
| Infrastructure | 212,705 | 1,229 | -- | -- | 213,934 |
| Equipment | 11,855 | 676 | (658) | (72) | 11,801 |
| Total capital assets, depreciated | <u>907,257</u> | <u>39,839</u> | <u>(658)</u> | <u>--</u> | <u>946,438</u> |
| Less accumulated depreciation: | | | | | |
| Structures and Improvements | (182,537) | (24,333) | -- | -- | (206,870) |
| Infrastructure | (159,248) | (4,712) | -- | -- | (163,960) |
| Equipment | (9,080) | (665) | 594 | 14 | (9,137) |
| Total accumulated depreciation | <u>(350,865)</u> | <u>(29,710)</u> | <u>594</u> | <u>14</u> | <u>(379,967)</u> |
| Total capital assets depreciated, net | <u>556,392</u> | <u>10,129</u> | <u>(64)</u> | <u>14</u> | <u>566,471</u> |
| Total capital assets, net | <u>\$ 618,036</u> | <u>\$ 25,436</u> | <u>\$ (39,571)</u> | <u>\$ 14</u> | <u>\$ 603,915</u> |

Note: Total depreciation expense for the year ended June 30, 2013 was \$29,710.

Capital asset activity for the year ended June 30, 2012, was as follows:

| | Balance at June 30, 2011 | Additions | Deductions | Adjustments | Balance at June 30, 2012 |
|---------------------------------------|-----------------------------|-------------------|---------------------|---------------|-----------------------------|
| Capital assets, not depreciated: | | | | | |
| Land | \$ 15,678 | \$ -- | \$ -- | \$ -- | \$ 15,678 |
| Construction in progress | 311,392 | 78,738 | (344,168) | 4 | 45,966 |
| Total capital assets, not depreciated | <u>327,070</u> | <u>78,738</u> | <u>(344,168)</u> | <u>4</u> | <u>61,644</u> |
| Capital assets, depreciated: | | | | | |
| Structures and Improvements | 342,728 | 344,085 | (1,764) | (2,352) | 682,697 |
| Infrastructure | 215,607 | -- | (5,593) | 2,691 | 212,705 |
| Equipment | 11,549 | 802 | (496) | -- | 11,855 |
| Total capital assets, depreciated | <u>569,884</u> | <u>344,887</u> | <u>(7,853)</u> | <u>339</u> | <u>907,257</u> |
| Less accumulated depreciation: | | | | | |
| Structures and Improvements | (170,087) | (13,335) | 885 | -- | (182,537) |
| Infrastructure | (152,265) | (6,983) | -- | -- | (159,248) |
| Equipment | (8,895) | (667) | 482 | -- | (9,080) |
| Total accumulated depreciation | <u>(331,247)</u> | <u>(20,985)</u> | <u>1,367</u> | <u>--</u> | <u>(350,865)</u> |
| Total capital assets depreciated, net | <u>238,637</u> | <u>323,902</u> | <u>(6,486)</u> | <u>339</u> | <u>556,392</u> |
| Total capital assets, net | <u>\$ 565,707</u> | <u>\$ 402,640</u> | <u>\$ (350,654)</u> | <u>\$ 343</u> | <u>\$ 618,036</u> |

Note: Total depreciation expense for the year ended June 30, 2012 was \$20,985.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 11 – Interfund Balances and Transfers

Interfund balances are the result of 1) the time lag between the time goods and services are provided by other County departments to the Airport and payment from the Airport to the other funds is made, and 2) accrued interest earned on Airport funds recorded in the Unapportioned Interest Fiduciary fund at year-end.

The composition of interfund balances as of June 30, 2013, was as follows:

| <u>Due To</u> | <u>Due From</u> | <u>Amount</u> |
|---------------------------------|-----------------|-----------------|
| Airport | General Fund | \$ 15 |
| Total Due From County of Orange | | <u>\$ 15</u> |
| General Fund | Airport | \$ 1,977 |
| Internal Service Funds | Airport | 562 |
| Other Government Funds | Airport | 2 |
| Total Due To County of Orange | | <u>\$ 2,541</u> |

The composition of interfund balances as of June 30, 2012, was as follows:

| <u>Due To</u> | <u>Due From</u> | <u>Amount</u> |
|---------------------------------|-----------------|-----------------|
| Airport | General Fund | \$ 565 |
| Total Due From County of Orange | | <u>\$ 565</u> |
| General Fund | Airport | \$ 2,017 |
| Internal Service Funds | Airport | 508 |
| Other Government Funds | Airport | 2 |
| Total Due To County of Orange | | <u>\$ 2,527</u> |

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 12 – New Accounting Pronouncements

The following lists recent GASB pronouncements implemented or are effective in the years ended June 30, 2013 and 2012:

In June 2011, GASB issued Statement No. 64, “*Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53.*” This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty’s credit support provider, is replaced. The Airport implemented this statement in the year ended June 30, 2012. Currently, the Airport has not entered into any swap contracts.

In November 2010, GASB issued Statement No. 60, “*Accounting and Financial Reporting for Service Concession Arrangements.*” This statement addresses issues related to service concession arrangements (SCA), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which 1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and 2) the operator collects and is compensated by fees from third parties. The Airport implemented this statement in the year ended June 30, 2013. This statement did not affect the Airport’s financial statements.

In November 2010, GASB issued Statement No. 61, “*The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.*” This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (blending) in certain circumstances. The Airport implemented this statement in the year ended June 30, 2013. This statement did not affect the Airport’s financial statements.

In December 2010, GASB issued Statement No. 62, “*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*” The objective of this statement is to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. The Airport implemented this statement effective June 30, 2013. This statement did not affect the Airport’s financial statements.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 12 – New Accounting Pronouncements (continued)

In June 2011, GASB issued Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*” This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. In addition, this statement amends the net assets reporting requirements in Statement No. 34, “*Basic Financial Statements and Management’s Discussion and Analysis-for State and Local Governments*”, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets. The Airport implemented this statement in the year ended June 30, 2013.

The following summarizes recent GASB Pronouncements and their impact, if any, on future financial statements:

In March 2012, GASB issued Statement No. 65, “*Items Previously Reported as Assets and Liabilities.*” This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012, which requires the Airport to implement this statement in the year ending June 30, 2014.

In March 2012, GASB issued Statement No. 66, “*Technical Corrections—2012—An Amendment of GASB Statements No. 10 and No. 62.*” This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012, which requires the Airport to implement this statement in the year ending June 30, 2014.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 12 – New Accounting Pronouncements (continued)

In June 2012, GASB issued Statement No. 68, “*Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*”, which results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, “*Accounting for Pensions by State and Local Governmental Employers*,” as well as the requirements of Statement No. 50, “*Pension Disclosures*,” as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. It also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2014, which requires the Airport to implement this statement in the year ending June 30, 2015.

In January 2013, GASB issued Statement No. 69, “*Government Combinations and Disposals of Government Operations*.” This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013, which requires the Airport to implement this statement in the year ending June 30, 2015.

In April 2013, GASB issued Statement No. 70, “*Accounting and Financial Reporting for Nonexchange Financial Guarantees*.” This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013, which requires the Airport to implement this statement in the year ending June 30, 2014.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)

Note 12 – New Accounting Pronouncements (continued)

In November 2013, GASB issued Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*”. This statement requires that, at transition to the new accounting standards in accordance with GASB Statement No.68, a government should recognize a beginning deferred outflow of resources for its pension contributions made after the measurement date of the beginning net pension liability. However, it continues to require that the beginning balances for other deferred outflows and deferred inflows be reported at transition only if it is practical to determine such amounts. Both Statements No. 68 and 71 are effective simultaneously for periods beginning after June 15, 2014, which requires the Airport to implement this statement in the year ending June 30, 2015.

Note 13 – Pollution Remediation Obligation

In 1988 and 2006, the Airport was named as the responsible party in a cleanup and abatement order, for two sites on Airport property, by the California Regional Water Quality Control Board (RWQCB). The sites, the Old Fuel Farm and the Former Fire Station #33, were identified as having chemical impacts to the soil and groundwater. In 1994 and 2002, the Airport began monitoring and the remediation of the Old Fuel Farm and the Former Fire Station #33 sites, respectively.

In 2008, the sites were sampled as part of an assessment and the results revealed that the soil and groundwater were still impacted by chemical pollutants. In an effort to increase the removal of the chemicals, the Airport’s environmental consultant reevaluated the sites and recommended a change to the remediation plan. The consultant calculated the new estimated pollution remediation liability based on a more active method of remediation that includes remedial technologies such as soil vapor extraction, dual phasing sparging and bioremediation.

The Airport started implementing the new remediation method in the year ended June 30, 2011 and the sites are estimated to be remediated in about six to ten years. The Airport is still performing tests on the sites and the results could possibly affect the estimated pollution remediation liability as well as a change to the remedial technologies used to remediate the sites. As of June 30, 2013, the Airport has a liability of \$1,124 based on management’s assessment and the results of the consultant’s evaluation.

In 1995, the Airport entered into Memorandum of Understanding (MOU) with one of its fixed-base operators (FBO) lessees to address the remediation of the Old Fuel Farm. The FBO was identified as the operator of the site and the other responsible party. The lessee agreed to be obligated to pay 50% of the remediation costs associated with the Old Fuel Farm site. The expected recoveries for the Old Fuel Farm site are realizable and a receivable in the amount of \$336 was recorded. Pollution remediation recoveries are reported in the Statement of Net Position as part of accounts receivable.

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(to the nearest thousand)**

Note 13 – Pollution Remediation Obligation (continued)

The estimated pollution remediation obligation as of June 30, 2013 is:

| | | |
|--------------------------------------|----|--------------|
| Old Fuel Farm Site | \$ | 785 |
| Former Fire Station #33 Site | | 692 |
| Less: Remediation Activity | | (353) |
| Net Pollution Remediation Obligation | \$ | <u>1,124</u> |

The estimated pollution remediation obligation as of June 30, 2012 was:

| | | |
|--------------------------------------|----|--------------|
| Old Fuel Farm Site | \$ | 785 |
| Former Fire Station #33 Site | | 692 |
| Less: Remediation Activity | | (269) |
| Net Pollution Remediation Obligation | \$ | <u>1,208</u> |

Note 14 – Subsequent Event

The following event occurred subsequent to June 30, 2013:

Airport Revenue Refunding Bonds, Series 2003

On July 1, 2013, the Airport called and redeemed the Airport Revenue Refunding Bonds, Series 2003 (2003 Bonds), with an outstanding carrying principle balance of \$23,685. The 2003 Bonds were issued on May 29, 2003 with an original maturity date of July 1, 2018. The redemption resulted in total interest savings of \$3,107. Refer to Note 5 – Long-term Obligations for additional information.

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Supervisors
County of Orange, California

We have audited, in accordance with the 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, the financial statements of the John Wayne Airport (the Airport), an enterprise fund of the County of Orange, California (County), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Airport's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free from material misstatement, we performed tests of its compliance with certain 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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The

results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Fini & O'Connell LLP

Newport Beach, California
December 20, 2013