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, 2014 and 2013

MGO Certified Public Accountants.

JOHN WAYNE AIRPORT
For the Years Ended June 30, 2014 and 2013

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MGO Certified Public Accountants.

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4675 MacArthur Court, Suite 600
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Sacramento

Walnut Creek

Oakland

LA/Century City

San Diego

Seattle

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 (Airport), an enterprise fund of the County of Orange, California (County) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, 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 of June 30, 2014 and 2013, 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.

As discussed in Note 13 to the financial statements, effective July 1, 2012, the Airport adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Our opinion is not modified with respect to these matters.

Other Matter

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 audits 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 5, 2014, 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, 2014. 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.

Macias Gini É O'Connell LLP

Newport Beach, California
December 5, 2014

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Years ended June 30, 2014 and 2013
(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, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the information furnished in the Airport's financial statements.

Financial Highlights

- The assets of the Airport exceeded its liabilities by $627,698 (net position) at June 30, 2014. Of this amount, $156,669 (unrestricted net position) may be used to meet the ongoing obligations of the Airport, $70,612 (restricted net position) was restricted for specific purposes, and $400,417 was the net investment in capital assets.
- Total net position increased by $22,252 or 3.7% for the year ended June 30, 2014. This increase consists of operating income of $6,350, nonoperating revenues of $10,625, and capital grant contributions of $5,277.
- Total liabilities decreased by $42,741 or 14.0% from June 30, 2013. This decrease consists of long-term liabilities of $7,436 and other liabilities of $35,305, which is primarily due to the early redemption of the Airport Revenue Refunding Bonds, Series 2003 (2003 Bonds) on July 1, 2013 resulting in a decrease of $23,685 in total liabilities.

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.

- <u>Statement of Net Position</u> is the statement of financial position for the Airport. Airport assets and liabilities, both financial and capital, short-term and long-term, and deferred outflows and inflows, are presented in this statement. Current assets and liabilities are reasonably expected to be realized or liquidated within one year.
- <u>Statement of Revenues, Expenses and Changes in Net Position</u> 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.
- <u>Statement of Cash Flows</u> 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.
- <u>Notes to the Financial Statements</u> 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, 2014 and 2013, the assets of the Airport exceeded its liabilities by $627,698 and $605,446, respectively.

Net Position:

	2014	2013 (As restated)	2014 vs 2013 % Change	2012 (As restated)	2013 vs 2012 % Change
Assets					
Current and other assets	$ 290,364	$ 305,754	(5.0) %	$ 286,731	6.6 %
Capital assets	598,816	603,915	(0.8) %	618,036	(2.3) %
Total Assets	889,180	909,669	(2.3) %	904,767	0.5 %
Deferred Outflows of Resources					
Deferred amount on refunding	-	-	0.0 %	1,918	(100.0) %
Total Deferred Outflows of Resources	-	-	0.0 %	1,918	(100.0) %
Liabilities					
Long-term liabilities	204,701	212,137	(3.5) %	243,623	(12.9) %
Other liabilties	56,781	92,086	(38.3) %	73,915	24.6 %
Total Liabilities	261,482	304,223	(14.0) %	317,538	(4.2) %
Net Position					
Net investment in capital assets	400,417	380,168	5.3 %	380,330	0.0 %
Restricted net position	70,612	82,238	(14.1) %	58,149	41.4 %
Unrestricted net position	156,669	143,040	9.5 %	150,668	(5.1) %
Total Net Position	$ 627,698	$ 605,446	3.7 %	$ 589,147	2.8 %

At June 30, 2014 and 2013, the largest component of the Airport's net position (63.8% and 62.8%) was its net 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 cannot be liquidated to fulfill these liabilities.

At June 30, 2014 and 2013, an additional component of the Airport's net position (11.2% and 13.6%) represents resources that are subject to external usage restrictions such as reserve for debt service, passenger facility charges (PFC), and replacements and renewals for capital projects. The remaining net position balance of $156,669 (25.0%) and $143,040 (23.6%) is unrestricted and may be used to meet the Airport's ongoing obligations.

As of June 30, 2014:

The Airport's total assets decreased by $20,489 or 2.3%. Current and other assets decreased by $15,390 or 5.0% primarily due to a decrease in restricted cash and investments with trustee and deposits in lieu of cash, partially offset by an increase in pooled cash and investments with Treasurer. The redemption of the 2003 Bonds on July 1, 2013 resulted in a decrease of $23,685 in restricted cash and investments with trustee. Deposit in lieu of cash decreased by $12,177 mainly due to withdrawals of negotiable instruments for completion of tenant improvement projects and expiration of Airport contracts. Pooled cash and investment with Treasurer increased by $15,774 as the Airport had more unspent cash from the normal course of business operations. Capital assets decreased by $5,099 or 0.8% because of an increase in accumulated depreciation and amortization.

The Airport's total liabilities decreased by $42,741 or 14.0%. Long-term liabilities decreased by $7,436 or 3.5% and other liabilities decreased by $35,305 or 38.3% mainly due to the $23,685 bond redemption and $6,790 retirement of long-term debt obligations, along with a decrease of $11,911 in deposits from others for withdrawals of negotiable instruments. Refer to Note 5, Long-Term Obligations, for additional information.

As of June 30, 2013:

The Airport's total assets increased by $4,902 or 0.5%. Current and other assets increased by $19,023 or 6.6% 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 $13,315 or 4.2%. Long-term liabilities decreased by $31,486 or 12.9% and other liabilities increased by $18,171 or 24.6% mainly due to the scheduled redemption and retirement of long-term debt obligations. Refer to Note 5, Long-Term Obligations, for additional information.

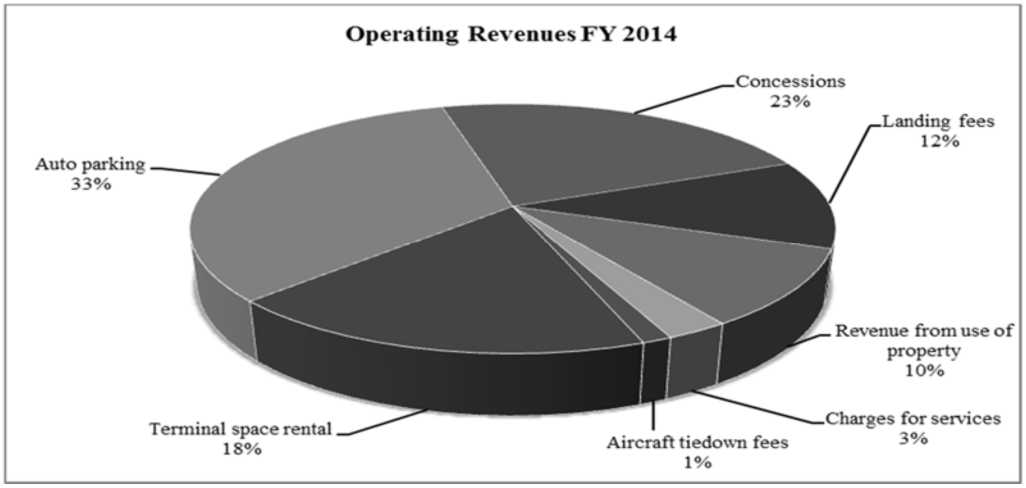
JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Years Ended June 30, 2014 and 2013
(To The Nearest Thousand)

Changes in Net Position:

	2014	2013	2014 vs 2013 % Change	2012	2013 vs 2012 % Change
Operating Revenues					
Terminal space rental	$ 21,308	$ 19,287	10.5 %	$ 23,718	(18.7) %
Auto parking	38,847	37,908	2.5 %	35,842	5.8 %
Concessions	27,171	25,504	6.5 %	25,145	1.4 %
Landing fees	13,633	14,536	(6.2) %	12,561	15.7 %
Revenue from use of property	12,333	12,599	(2.1) %	9,475	33.0 %
Charges for services	3,155	2,997	5.3 %	3,246	(7.7) %
Aircraft tiedown fees	1,479	1,462	1.2 %	1,477	(1.0) %
Total operating revenues	117,926	114,293	3.2 %	111,464	2.5 %
Operating Expenses					
Professional and specialized services	38,437	36,337	5.8 %	34,426	5.6 %
Salaries and employee benefits	18,746	18,645	0.5 %	18,680	(0.2) %
Other services and supplies	27,706	24,938	11.1 %	24,708	0.9 %
Depreciation and amortization	26,687	29,710	(10.2) %	20,985	41.6 %
Total operating expenses	111,576	109,630	1.8 %	98,799	11.0 %
Operating income	6,350	4,663	36.2 %	12,665	(63.2) %
Nonoperating Revenues (Expenses)					
Interest income	812	811	0.1 %	986	(17.7) %
Interest expense	(9,938)	(12,285)	(19.1) %	(6,098)	101.5 %
Bankruptcy settlement proceeds	490	562	(12.8) %	611	(8.0) %
Fines and penalties	237	195	21.5 %	248	(21.4) %
Other revenue - net	828	60	1280.0 %	(692)	(108.7) %
PFC revenue	18,196	18,454	(1.4) %	17,500	5.5 %
Total nonoperating revenues	10,625	7,797	36.3 %	12,555	(37.9) %
Income Before Contributions	16,975	12,460	36.2 %	25,220	(50.6) %
Capital grant contributions	5,277	3,839	37.5 %	3,912	(1.9) %
Changes in Net Position	22,252	16,299	36.5 %	29,132	(44.1) %
Total Net Position Beginning of Year, As Restated	605,446	589,147	2.8 %	560,015	5.2 %
Total Net Position End of Year	$ 627,698	$ 605,446	3.7 %	$ 589,147	2.8 %

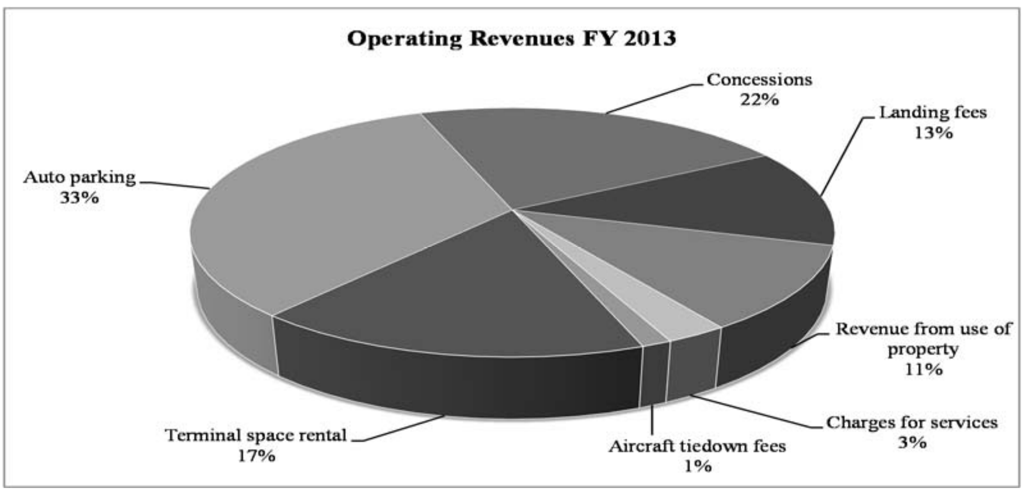
During the years ended June 30, 2014 and 2013, the Airport's net position increased by $22,252 or 3.7% and $16,299 or 2.8%, respectively.

For the year ended June 30, 2014:



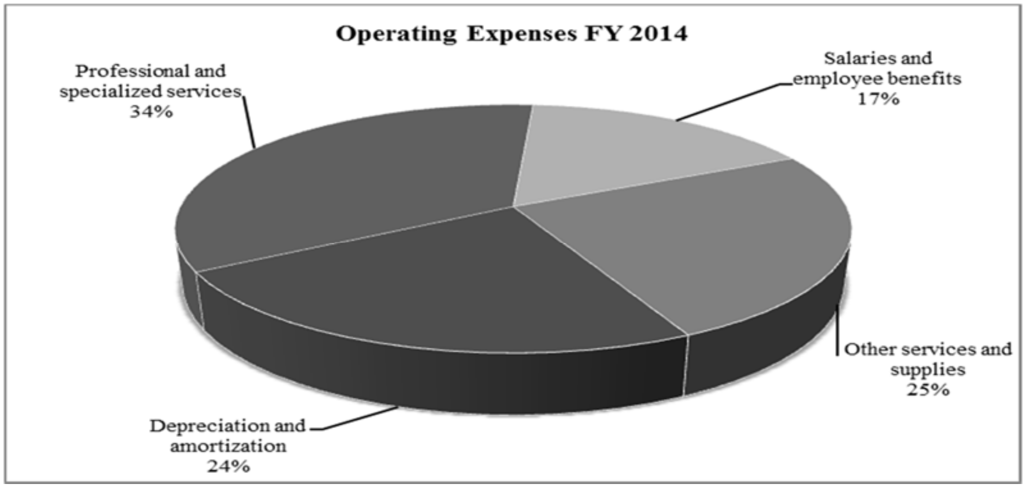
The Airport's operating revenues increased by $3,633 or 3.2% primarily due to an increase of $2,021 in terminal space rent charged to the airlines and an increase of $1,667 in concession revenue received as a result of new rental car and specialty concession lease agreements.

For the year ended June 30, 2013:



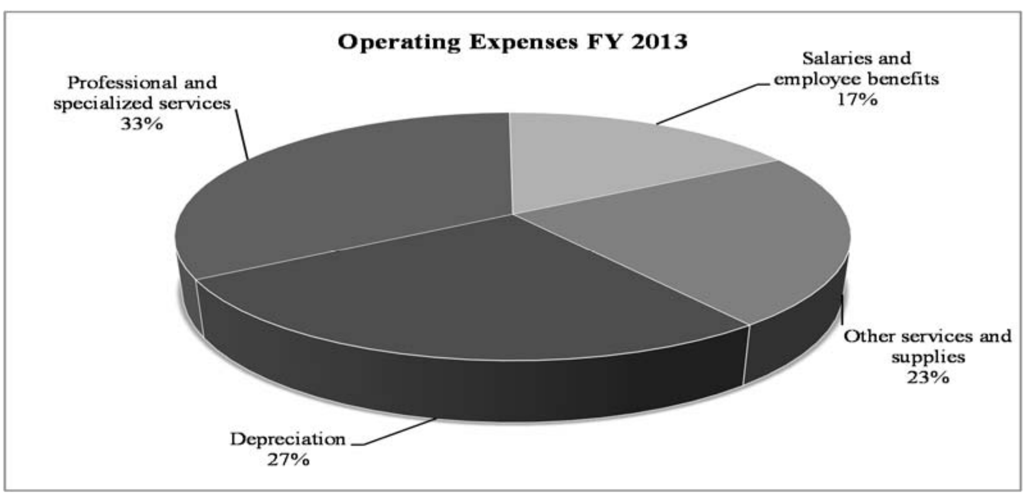
The Airport's operating revenues increased by $2,829 or 2.5% primarily due to an increase in auto parking, landing fees, and revenue from use of property as a result of the increase in number of passengers, higher landing fees, and the addition of cost reimbursements for new services provided to the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

For the year ended June 30, 2014:



The Airport's operating expenses increased by $1,946 or 1.8% primarily due to an increase in professional and specialized services and other services and supplies, partially offset by decreased depreciation and amortization. The addition of services was required for projects including the runway maintenance, Central Plant maintenance and improvement, and preparation of Environmental Impact Report (EIR) as mandated in the Memorandum of Understanding (MOU) for the signatories of the Settlement Agreement. Refer to Note 14, Subsequent Event, for additional information regarding EIR certification. Depreciation expense decreased due to several capital assets fully depreciated as of the year ended June 30, 2013 and a depreciation expense adjustment for recently capitalized assets.

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.

The Airport's nonoperating revenues increased by $2,828 or 36.3% for the year ended June 30, 2014 and decreased by $4,758 or 37.9% for the year ended June 30, 2013. For the year ended June 30, 2014, the increase is primarily due to lower interest expense when compared to 2013 as a result of the redemption of 2003 Bonds on July 1, 2013. For the year ended June 30, 2013, the decrease is mainly due to higher interest expense when compared to 2012 as a result of a decrease in capitalized interest expense for the completion of debt financed projects. Capital grant contributions increased by $1,438 for the year ended June 30, 2014 due to an increase in cost reimbursements for federal funded construction projects.

Capital Assets

The Airport's investment in capital assets as of June 30, 2014 and 2013 amounted to $598,816 and $603,915, net of accumulated depreciation, respectively. The 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, 2014 and 2013 was a decrease of 0.8% and 2.3%, respectively.

Capital Assets (Net of Depreciation):

	2014	2013	2014 vs 2013 % Change	2012	2013 vs 2012 % Change
Capital Assets					
Land	$ 15,678	$ 15,678	0.0 %	$ 15,678	0.0 %
Structures and improvements	518,917	513,833	1.0 %	500,160	2.7 %
Equipment	2,683	2,664	0.7 %	2,775	(4.0) %
Infrastructure	51,083	49,974	2.2 %	53,457	(6.5) %
Intangible assets	390	418	(6.7) %	-	N/A
Construction in progress	10,065	21,348	(52.9) %	45,966	(53.6) %
Total Capital Assets	$ 598,816	$ 603,915	(0.8) %	$ 618,036	(2.3) %

Major capital asset events during the year ended June 30, 2014 included the following:

- Completion of the Seismic Remediation Elevated Roadways project at an approximate cost of $8,952.
- Completion of construction of Maintenance Building at an approximate cost of $10,262.
- Completion of construction of Tiedown Shade Structure at an approximate cost of $2,627.
- Completion of Reconstruct Perimeter Road West Phase II project at an approximate cost of $6,050.

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

- 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.

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.

At June 30, 2014, the Airport was committed under contracts for construction projects in amount of $20,434. Refer to Note 9, Commitments, for more information.

Long-Term Debt

At June 30, 2014 and 2013, the Airport had total bonded debt outstanding of $209,803 and $240,541, 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 revenues, and available PFC revenue.

The following summarizes the Airport's outstanding bonds at June 30, 2014 and 2013:

	2014	2013	2014 vs 2013 % Change	2012	2013 vs 2012 % Change
Long-term Debt Obligations					
Airport Revenue Refunding Bonds, Series 2003	$ -	$ 23,685	(100.0) %	$ 27,010	(12.3) %
Airport Revenue Bonds, Series 2009A	63,785	65,235	(2.2) %	66,645	(2.1) %
Airport Revenue Bonds, Series 2009B	147,485	152,825	(3.5) %	157,340	(2.9) %
Add: Premium/(Discount) on Bonds Payable	(1,467)	(1,204)	21.8 %	(177)	580.2 %
Less: Deferred Amount on Refunding	-	-	0.0 %	(1,918)	(100.0) %
Total Long-term Debt Obligations	$ 209,803	$ 240,541	(12.8) %	$ 248,900	(3.4) %

During the years ended June 30, 2014 and 2013, the decrease in the outstanding bonds was due to principal payments, amortization of bond premiums/discounts, and redemption of the 2003 Bonds.

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:

	Standard & Poor's	Moody's	Fitch
Long-term Debt Ratings			
June 30, 2014			
Airport Revenue Bonds, Series 2009A and 2009B	AA-	Aa3	AA-
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-

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 18, 2014, the Airport was awarded an Airport Improvement Program grant from the Federal Aviation Administration (FAA) in the maximum amount of $1,048 for the Airport's Runway Re-designation and Paularino Gate Improvements projects. The grant is reimbursement type grant.

Airport Improvement Program and Financial Planning:

Phase I of John Wayne Airport's $543 million Airport Improvement Program was completed in 2011. Major projects in Phase II of the Airport Improvement Program (AIP II) completed in the year ended June 30, 2014 were the Maintenance Building, Reconstruction of Perimeter Road West, and Seismic Retrofit Elevated Roadway. As of June 30, 2014, AIP II had a remaining budget of $61 million. The major projects in AIP II scheduled in the next three years are the multiple components of Terminal Improvements and Parking Structure C Phase II. Other projects including Bristol Street Slope Stabilization and Campus/Bristol Right Turn Lane are slated to be completed in 2015. The Paularino Street Gate Improvement is scheduled for 2016 completion.

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. 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.

Settlement Agreement:

In 1985, the County, the City of Newport Beach, and two community groups reached a Settlement Agreement (Agreement) on a 20-year Airport Master Plan. In 2003, the original four signatories approved an amendment to the Agreement, increasing the number of passengers to 10.3 million annual passengers (MAP) through December 31, 2010 and to 10.8 MAP through December 31, 2015, the number of regulated flights, and the number of gates equipped with passenger loading bridges from 14 to 20.

On September 30, 2014, the Board certified Environmental Impact Report 617 and approved an amendment to the Agreement, which extended the term through December 31, 2030. The amendment allows the operational capacity at the Airport to remain at currently authorized 10.8 million annual passengers (MAP) through December 31, 2020 and provides for an increase to 11.8 MAP through December 31, 2025 and to 12.2 MAP or 12.5 MAP through December 31, 2030 depending on the actual service level from 2021 to 2025. The amendment maintains the Airport's curfew through December 31, 2035, provides for an increase in the number of regulated flights allocated to passenger commercial carriers at the Airport, and eliminates the limit on permitted number of commercial passenger loading bridges beginning on January 1, 2021.

This amendment to the Agreement has been approved by all four signatories, and the Ninth Supplemental Stipulation has been submitted to the U.S. District Court for final approval.

JOHN WAYNE AIRPORT
Statements of Net Position
June 30, 2014 and 2013
(To The Nearest Thousand)

	2014	2013 (As restated)
Assets		
Current assets:		
Cash (Note 2)	$ 7,633	$ 8,773
Pooled cash and investments with Treasurer (Note 2)	101,638	85,864
Cash Equivalents/Specific investments with Treasurer (Note 2)	28,105	29,225
Imprest cash (Note 2)	14	14
Accounts receivable	4,991	5,632
Interest receivable	251	338
Due from County of Orange (Note 8)	1	15
Due from other governmental agencies	4,445	5,226
Prepaid expenses	3,380	3,019
Current restricted assets:		
Restricted cash and investments with trustee (Note 2)	12,444	36,576
Pooled cash and investments held for others (Note 2)	1,002	737
Pooled cash and investments with Treasurer (Note 2)	61,585	54,195
Passenger Facility Charges (PFC) receivable (Note 1)	1,937	2,332
Deposits in lieu of cash	27,315	39,492
Total current assets	254,741	271,438
Noncurrent restricted assets:		
Investments with trustee (Note 2)	13,821	13,821
Capital assets (Note 10):		
Land (Note 6)	15,678	15,678
Structures and improvements (Note 6)	745,199	720,703
Equipment	12,207	11,801
Infrastructure - runways, taxiways and aprons	219,444	213,934
Intangible assets	418	-
Construction in progress	10,065	21,348
Intangible assets in progress	-	418
Less accumulated depreciation/amortization	(404,195)	(379,967)
Total capital assets	598,816	603,915
Other noncurrent assets:		
Specific investments with Treasurer (Note 2)	21,802	20,495
Total noncurrent assets	634,439	638,231
Total Assets	$ 889,180	$ 909,669

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statements of Net Position (Continued)

June 30, 2014 and 2013

(To The Nearest Thousand)

	2014	2013 (As restated)
Liabilities		
Current liabilities:		
Accounts payable	$ 6,908	$ 7,539
Salaries payable	652	808
Interest payable	5,354	6,039
Unearned revenue	3,998	2,358
Due to County of Orange (Note 8)	2,702	2,541
Due to other governmental agencies	430	577
Pollution remediation obligation (Notes 5 and 12)	56	-
Compensated employee absences (Note 5)	1,095	1,061
Current liabilities payable from restricted assets:		
Arbitrage rebate payable (Note 5)	-	196
Bonds payable, net of premiums (Note 5)	7,268	30,738
Deposits from others	28,318	40,229
Total current liabilities	56,781	92,086
Noncurrent liabilities:		
Pollution remediation obligation (Notes 5 and 12)	1,002	1,124
Compensated employee absences (Note 5)	1,164	1,210
Bonds payable, net of premiums (Note 5)	202,535	209,803
Total noncurrent liabilities	204,701	212,137
Total Liabilities	261,482	304,223
Net Position		
Net investment in capital assets	400,417	380,168
Restricted for debt service	7,090	25,907
Restricted for PFC (Note 1)	62,522	55,331
Restricted for capital projects - replacements and renewals	1,000	1,000
Unrestricted	156,669	143,040
Total Net Position	$ 627,698	$ 605,446

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013
(To The Nearest Thousand)

	2014	2013
Operating Revenues		
Terminal space rental	$ 21,308	$ 19,287
Auto parking	38,847	37,908
Concessions	27,171	25,504
Landing fees	13,633	14,536
Revenue from use of property	12,333	12,599
Charges for services	3,155	2,997
Aircraft tiedown fees	1,479	1,462
Total operating revenues	117,926	114,293
Operating Expenses		
Professional and specialized services	38,437	36,337
Salaries and employee benefits	18,746	18,645
Other services and supplies	27,706	24,938
Depreciation and amortization	26,687	29,710
Total operating expenses	111,576	109,630
Operating income	6,350	4,663
Nonoperating Revenues (Expenses)		
Interest income	812	811
Interest expense	(9,938)	(12,285)
Bankruptcy settlement proceeds	490	562
Fines and penalties	237	195
Other revenue - net	828	60
PFC revenue (Note 1)	18,196	18,454
Total nonoperating revenues	10,625	7,797
Income Before Contributions	16,975	12,460
Capital grant contributions	5,277	3,839
Changes In Net Position	22,252	16,299
Total Net Position Beginning of Year, As Restated (Note 13)	605,446	589,147
Total Net Position End of Year	$ 627,698	$ 605,446

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013
(To The Nearest Thousand)

	2014	2013
Cashflows From Operating Activities		
Receipts from customers	$ 120,285	$ 113,382
Payments to suppliers for goods and services	(66,036)	(60,372)
Payments to employees for services	(19,230)	(19,087)
Internal activity - receipts from other funds	174	564
Other receipts	995	887
Net cash provided by operating activities	36,188	35,374
Cashflows From Noncapital Financing Activities		
Intergovernmental revenues	583	182
Net cash provided by noncapital financing activities	583	182
Cashflows From Capital and Related Financing Activities		
Acquisition and construction of capital assets	(22,324)	(21,101)
Principal payments on long-term debt	(30,475)	(9,250)
Interest paid on long-term debt (Note 1)	(11,393)	(12,250)
Proceeds from capital grant contributions	6,260	2,311
Proceeds from sale of capital assets	15	41
Receipts from PFC	18,591	18,472
Net cash used in capital and related financing activities	(39,326)	(21,777)
Cashflows from Investing Activities		
Sales (purchases) of investments, net	(1,307)	487
Interest received on investments	899	958
Net cash provided (used) by investing activities	(408)	1,445
Net Increase (Decrease) in Cash and Cash Equivalents	(2,963)	15,224
Cash and Cash Equivalents - Beginning of Year	215,384	200,160
Cash and Cash Equivalents - End of Year	$ 212,421	$ 215,384

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2014 and 2013
(To The Nearest Thousand)

	2014	2013
Reconcilitation of Operating Income to Net		
Cash Provided by Operating Activities		
Operating income	$ 6,350	$ 4,663
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH		
PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	26,687	29,710
Fines and penalties	237	195
Other revenue	895	754
(INCREASES) DECREASES IN ASSETS:		
Accounts receivable	641	(491)
Due from County of Orange	14	550
Due from other governmental agencies	83	(146)
Prepaid expenses	(361)	(336)
Deposits in lieu of cash	12,177	(2,500)
INCREASES (DECREASES) IN LIABILITIES:		
Accounts payable	152	902
Salaries payable	(156)	38
Unearned revenue	1,640	64
Due to County of Orange	161	14
Due to other governmental agencies	(147)	42
Compensated employee absences	(12)	(143)
Deposits from others	(11,911)	2,095
Arbitrage rebate payable	(196)	47
Pollution remediation obligation	(66)	(84)
Net cash provided by operating activities	$ 36,188	$ 35,374
Reconciliation of Cash and Cash Equivalents to		
Statement of Net Position		
Cash	$ 7,633	$ 8,773
Pooled cash and investments	101,638	85,864
Restricted pooled cash and investments held for others	1,002	737
Restricted pooled cash and investments with Treasurer	61,585	54,195
Imprest cash	14	14
Specific investments with Treasurer	49,907	49,720
Restricted investments with trustee	26,265	50,397
Total	248,044	249,700
Less: Investments with original maturities of 90 days or more	(21,802)	(20,495)
Investments held with trustee for debt service reserve requirement	(13,821)	(13,821)
Total Cash and Cash Equivalents	$ 212,421	$ 215,384
Noncash Investing, Capital, and Financing Activities		
Acquisition of capital assets with accounts payable	$ 2,417	$ 3,201
Change in fair value of investments not considered cash or cash equivalents	(78)	(121)
Accrued capital grant contribution receivable	3,914	4,898

See accompanying notes to financial statements.

(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 where applicable, 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.

(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

Description of Reporting Entity (Continued)

In 2003, prior to the 2005 expiration of the Agreement, the signatories approved a series of amendments to the Agreement that allowed for additional facilities and operational capacity, while continuing to provide environmental protections for the local community.

The amended Agreement enhances capacity at the Airport by increasing: (i) the number of regulated flights through December 31, 2015; (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.

Since early 2012, the four signatories began discussing a second extension of the Settlement Agreement. The parties reached agreement on project objectives as well as the definition of a "proposed project" and project alternatives to be analyzed pursuant to the California Environmental Quality Act (CEQA). Refer to Note 14, Subsequent Event, for current status.

The Airport derives revenues primarily from landing fees, terminal space rental, auto parking, and concessions. 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.

(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 intangible assets 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. 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, 2014 and 2013 were $10,708 and $507, and $12,078 and $684, respectively.

Premiums/Discounts

Bond premiums and discounts are 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.

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.

(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

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 $948,433. 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, 2014 and 2013, the Airport reported restricted net position of $70,612 and $82,238, respectively, for debt service, Passenger Facility Charges and replacements and renewals, of which $62,522 and $55,331 was restricted by enabling legislation, respectively.

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.

(1) Reporting Entity and Summary of Significant Accounting Policies (Continued)

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, 2014 and 2013, $18,196 and $18,454 in PFC revenue was reported and $11,119 and $11,122 was expended on FAA approved projects, respectively.

(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.

Total Airport cash and investments at fair value as of June 30, 2014 and June 30, 2013 were as follows:

Cash and pooled cash and investments:	2014	2013
Cash on hand	$ 7,647	$ 8,787
Pooled cash and investments	164,225	140,796
Total cash and pooled cash and investments	171,872	149,583
Investments:		
With Treasurer	49,907	49,720
With trustee	26,265	50,397
Total investments	76,172	100,117
Total cash and investments	$ 248,044	$ 249,700

(2) Cash and Investments (Continued)

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 $49,907 and $49,720 at June 30, 2014 and June 30, 2013 respectively, of which $28,105 and $29,225, 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.

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. Deposits held in the money market deposit accounts are insured by FDIC up to $250.

(2) Cash and Investments (Continued)

Deposits and Investments

As of June 30, 2014, the Airport had the following investments:

	Fair Value	Weighted Average Maturity (Years)
With Treasurer:		
U.S. Government Agencies	$ 41,955	0.13
Negotiable Certificates of Deposit	3,301	0.41
Medium-Term Notes	2,323	0.35
Money Market Mutual Funds	2,328	--
Total investments with Treasurer	$ 49,907	0.15 *
With trustee:		
U.S. Treasuries	$ 13,734	0.41
Money Market Mutual Funds	181	--
Money Market Deposit Accounts	12,350	--
Total deposits and investments with trustee	$ 26,265	0.21 *

* Portfolio weighted average maturity

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

	Fair Value	Weighted Average Maturity (Years)
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	$ 49,720	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	$ 50,397	0.26 *

* Portfolio weighted average maturity

(2) Cash and Investments (Continued)

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 weighted average maturity (WAM) in accordance with the IPS. At June 30, 2014 and 2013, the WAM for the Pool approximated 464 and 380 days, respectively, and for investments with Treasurer approximated 56 and 53 days, respectively.

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.

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, government sponsored enterprises, or County of Orange. No more than 10% may be invested in one money market mutual fund.

(2) Cash and Investments (Continued)

Concentration of Credit Risk (Continued)

At June 30, 2014, 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):

	S&P	Moody's	Fitch	% of Total
Pool Investments:				
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	A-1	P-1	F1	2.19%
Federal National Mortgage Association Bonds	AA	Aaa	AAA	11.50%
Federal Farm Credit Bank Bonds	AA	Aaa	AAA	7.42%
Federal Home Loan Bank Discount Notes	A-1	P-1	F1	3.76%
Federal Home Loan Bank Bonds	AA	Aaa	AAA	17.43%
Federal Home Loan Mortgage Corporation Discount Notes	A-1	P-1	F1	4.63%
Federal Home Loan Mortgage Corporation Bonds	AA	Aaa	AAA	13.45%
Negotiable Certificates of Deposit	A-1	P-1	F1	1.09%
Medium-Term Corporate Notes				
Corporate Notes	AA	Aa	A	0.35%
Corporate Notes	AA	Aa	AA	1.40%
Corporate Notes	AAA	Aaa	AAA	1.04%
Municipal Debt	AA	NR	NR	4.74%
U.S. Treasuries	AA	Aaa	AAA	27.56%
Money Market Mutual Funds	AAA	Aaa	NR	3.44%
Total Pool				100.00%

	S&P	Moody's	Fitch	% of Total
Specific Investments with Treasurer:				
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	A-1	P-1	F1	12.51%
Federal National Mortgage Association Bonds	AA	Aaa	AAA	10.79%
Federal Farm Credit Bank Bonds	AA	Aaa	AAA	14.24%
Federal Home Loan Bank Discount Notes	A-1	P-1	F1	24.31%
Federal Home Loan Bank Bonds	AA	Aaa	AAA	4.91%
Federal Home Loan Mortgage Corporation Discount Notes	A-1	P-1	F1	6.34%
Federal Home Loan Mortgage Corporation Bonds	AA	Aaa	AAA	10.97%
Negotiable Certificates of Deposit	A-1	P-1	F1	6.61%
Medium-Term Corporate Notes				
Corporate Notes	AA	Aa	A	4.65%
Money Market Mutual Funds	AAA	Aaa	NR	4.67%
Total investments with Treasurer				100.00%

(2) Cash and Investments (Continued)

Concentration of Credit Risk (Continued)

	S&P	Moody's	Fitch	% of Total
Deposits and Investments With Trustee:				
U.S. Treasuries	AA	Aaa	AAA	52.29%
Money Market Mutual Funds	AAA	Aaa	NR	0.69%
Money Market Deposit Accounts	NR	NR	NR	47.02%
Total investments with Trustee				100.00%

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):

	S&P	Moody's	Fitch	% of Total
Pool Investments:				
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				100.00%

	S&P	Moody's	Fitch	% of Total
Specific Investments with Treasurer:				
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				100.00%

(2) Cash and Investments (Continued)

Concentration of Credit Risk (Continued)

	S&P	Moody's	Fitch	% of Total
Deposits and Investments With Trustee:				
U.S. Treasuries	AA	Aaa	AAA	27.25%
Guaranteed Investment Contracts	NR	NR	NR	17.28%
Money Market Mutual Funds	AAA	Aaa	NR	31.17%
Money Market Deposit Accounts	NR	NR	NR	24.30%
Total investments with Trustee				100.00%

(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.

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, 2014 and 2013, the employer's contribution rate as a percentage of covered payroll for general members was 32.95% and 28.37%, respectively.

(3) Defined Benefit Pension Plan (Continued)

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, the Airport's annual required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

For Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2012	$ 2,897	100%
2013	2,969	100%
2014	3,088	100%

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://www.ac.ocgov.com.

(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 Postemployment 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.

(4) Postemployment Health Care Benefits (Continued)

Funding Policy: As an enterprise fund of the County, the Airport was required to contribute 4.0% and 3.8% of its payroll for the years ended June 30, 2014 and 2013, respectively. The Airport's required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

For Year Ended June 30,	Required Contribution	Percentage Contributed
2012	$ 327	100%
2013	473	100%
2014	483	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 CAFR. The CAFR is available by accessing the Auditor-Controller's website at http://www.ac.ocgov.com.

(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.

Airport Revenue Refunding Bonds, Series 2003

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. The Airport called and redeemed the 2003 Bonds on July 1, 2013 with outstanding carrying principal balance of $23,685.

(5) Long-Term Obligations (Continued)

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, 2014, the outstanding principal amount, including net discount, of the 2009A and 2009B Bonds were $62,712 and $147,091, respectively, and the outstanding interest were $48,746 and $82,692, 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, 2014, the total principal and interest paid and total net revenues were $17,600 and $46,577, respectively. For the year ended June 30, 2013, the total principal and interest paid and total net revenues were $16,926 and $47,227, respectively. The total net revenues include $11,193 and $11,194 available PFC revenue for the years ended June 30, 2014 and 2013, respectively.

Revenue bonds outstanding and related activity for the year ended June 30, 2014, were as follows:

	Balance at July 1, 2013	Additions	Deductions	Balance at June 30, 2014	Due in 1 year
Airport Revenue Refunding					
Bonds Series 2003	$ 23,685	$ --	$ (23,685)	$ --	$ --
Airport Revenue Bonds					
Series 2009A	65,235	--	(1,450)	63,785	1,495
Bond Premium/(Discount)	(1,065)	--	(8)	(1,073)	8
Airport Revenue Bonds					
Series 2009B	152,825	--	(5,340)	147,485	5,500
Bond Premium/(Discount)	(139)	--	(255)	(394)	265
Total	$ 240,541	$ --	$ (30,738)	$ 209,803	$ 7,268

(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
Airport Revenue Refunding					
Bonds Series 2003	$ 27,010	$ --	$ (3,325)	$ 23,685	$ 23,685
Bond Premium	746	--	(746)	--	--
Deferred Amount on Refunding	(1,918)	--	1,918	--	--
Airport Revenue Bonds					
Series 2009A	66,645	--	(1,410)	65,235	1,450
Bond Premium/(Discount)	(1,052)	--	(13)	(1,065)	8
Airport Revenue Bonds					
Series 2009B	157,340	--	(4,515)	152,825	5,340
Bond Premium/(Discount)	129	--	(268)	(139)	255
Total	$ 248,900	$ --	$ (8,359)	$ 240,541	$ 30,738

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

	2009A Bonds		2009B Bonds		
Year Ending June 30,	Principal	Interest	Principal	Interest	Total
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	1,740	2,913	6,535	6,326	17,514
2020-2024	10,020	13,166	37,860	26,250	87,296
2025-2029	12,895	10,213	48,610	14,904	86,622
2030-2034	13,150	6,855	18,085	4,831	42,921
2035-2039	15,980	3,158	10,605	2,096	31,839
2040	3,715	98	2,465	65	6,343
Total	$ 63,785	$ 48,746	$ 147,485	$ 82,692	$ 342,708

(5) Long-Term Obligations (Continued)

Other long-term liability activity for the years ended June 30, 2014 and 2013, respectively, were as follows:

	Balance at July 1, 2013	Additions	Deductions	Balance at June 30, 2014	Due in 1 year
Other Long-Term Liabilities:					
Compensated Employee Absences	$ 2,271	$ 1,610	$ (1,622)	2,259	$ 1,095
Arbitrage Rebate Payable	196	--	(196)	--	--
Pollution Remediation Obligation	1,124	--	(66)	1,058	56
Total Other Long-Term Liabilities	$ 3,591	$ 1,610	$ (1,884)	$ 3,317	$ 1,151

	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

(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, 2014 and 2013, respectively, were as follows:

	Cost of leased property	Accumulated depreciation of leased property	Total carrying value of leased property
Structures and Improvements	$ 68,821	$ (16,965)	$ 51,856
Land	2,429	--	2,429
Balance at June 30, 2014	$ 71,250	$ (16,965)	$ 54,285

	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	$ 67,097	$ (12,238)	$ 54,859

(6) Property Leased to Others (Continued)

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2014 are as follows:

Year Ending June 30,	Future Minimum Rent	
2015	$	47,939
2016		35,733
2017		23,855
2018		23,280
2019		14,351
2020-2024		20,647
2025-2029		773
Total	$	166,578

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.

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 $26,367 and $27,168 for the years ended June 30, 2014 and 2013, respectively.

(7) Commitments under Operating Leases

Lease expense was $212 and $234 for the years ended June 30, 2014 and 2013, respectively. As of June 30, 2014, there was $56 in outstanding lease commitments.

(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 $22,806 and $21,657 for the years ended June 30, 2014 and 2013, respectively.

Interfund receivable/payable balances are the result of 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.

(8) Related Party Transactions (Continued)

The composition of interfund balances as of June 30, 2014, was as follows:

Due To	Due From	Amount
Airport	General Fund	$ 1
Total Due From County of Orange		$ 1
General Fund	Airport	$ 2,113
Internal Service Funds	Airport	588
Other Government Funds	Airport	1
Total Due To County of Orange		$ 2,702

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

Due To	Due From	Amount
Airport	General Fund	$ 15
Total Due From County of Orange		$ 15
General Fund	Airport	$ 1,977
Internal Service Funds	Airport	562
Other Government Funds	Airport	2
Total Due To County of Orange		$ 2,541

(9) Commitments

At June 30, 2014, the Airport was committed under contracts for the following construction projects:

Terminals A & B Baggage Handling System Enhancements	$ 10,649
Parking Structure C, Phase 2	2,662
Terminal Improvements	2,251
Bristol Street Slope Stabilization	1,754
Perimeter Road West Reconstruction	1,245
Other	1,873
Total	$ 20,434

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Years Ended June 30, 2014 and 2013
(To The Nearest Thousand)

(10) Changes in Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance at June 30, 2013	Additions	Deductions	Adjustments	Balance at June 30, 2014
Capital assets, not depreciated/amortized:					
Land	$ 15,678	$ --	$ --	$ --	$ 15,678
Construction in progress	21,348	21,361	(32,644)	--	10,065
Intangible assets in progress	418	--	(418)	--	--
Total capital assets, not depreciated/amortized	37,444	21,361	(33,062)	--	25,743
Capital assets, depreciated/amortized:					
Structures and Improvements	720,703	26,346	(1,944)	94	745,199
Infrastructure	213,934	5,813	(303)	--	219,444
Equipment	11,801	712	(212)	(94)	12,207
Intangible assets	--	418	--	--	418
Total capital assets, depreciated/amortized	946,438	33,289	(2,459)	--	977,268
Less accumulated depreciation/amortization:					
Structures and Improvements	(206,870)	(21,319)	1,944	(37)	(226,282)
Infrastructure	(163,960)	(4,704)	303	--	(168,361)
Equipment	(9,137)	(636)	212	37	(9,524)
Intangible assets	--	(28)	--	--	(28)
Total accumulated depreciation/amortization	(379,967)	(26,687)	2,459	--	(404,195)
Total capital assets depreciated/amortized, net	566,471	6,602	--	--	573,073
Total capital assets, net	$ 603,915	$ 27,963	$ (33,062)	$ --	$ 598,816

Note: Total depreciation and amortization expense for the year ended June 30, 2014 was $26,687.

(10) Changes in Capital Assets (Continued)

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	61,644	15,307	(39,507)	--	37,444
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	907,257	39,839	(658)	--	946,438
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	(350,865)	(29,710)	594	14	(379,967)
Total capital assets depreciated, net	556,392	10,129	(64)	14	566,471
Total capital assets, net	$ 618,036	$ 25,436	$ (39,571)	$ 14	$ 603,915

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

(11) New Accounting Pronouncements

The following summarizes recent GASB pronouncements implemented or effective in the years ended June 30, 2014 and 2013:

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 Airport implemented this statement in the year ended June 30, 2014 with retroactive application to July 1, 2012.

(11) New Accounting Pronouncements (Continued)

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 Airport implemented this statement in the year ended June 30, 2014. This statement did not affect the Airport's financial statements.

In June 2012, GASB issued Statement No. 67, "*Financial Reporting for Pension Plans—An Amendment of GASB Statement No. 25*", 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 Statements No. 25, "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*", and No. 50, "*Pension Disclosures*", as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement enhances note disclosures and required supplemental information (RSI) for both defined benefit and defined contribution pension plans. It also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The County implemented this statement in the year ended June 30, 2014; however, this statement did not affect the Airport's financial statements.

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 Airport implemented this statement in the year ended June 30, 2014. This statement did not affect the Airport's financial statements.

(11) New Accounting Pronouncements (Continued)

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

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 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.

(12) 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, 2014, the Airport has a liability of $1,058 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. Reported in the Statement of Net Position as part of accounts receivable, the total expected recovery for the Old Fuel Farm site is $311 as of June 30, 2014.

The estimated pollution remediation obligation as of June 30, 2014 is:

Old Fuel Farm Site	$	785
Former Fire Station #33 Site		692
Less: Remediation Activity		(419)
Net Pollution Remediation Obligation	$	1,058

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

Old Fuel Farm Site	$	785
Former Fire Station #33 Site		692
Less: Remediation Activity		(353)
Net Pollution Remediation Obligation	$	1,124

(13) Changes in Accounting Principles

GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*", 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. In the year ended June 30, 2014, the Airport implemented this Statement and restated the beginning net position as of July 1, 2012 by $1,785 to write off unamortized bond issuance costs that were previously reported as assets. The beginning net position as of July 1, 2013 was restated by $1,513, which included an adjustment of $272 for the amortization of bond issuance costs in the year ended June 30, 2013. These adjustments are reflected in the net position beginning of year in the Statement of Revenues, Expenses and Changes in Net Position:

Total net position at June 30, 2012	$	590,932
GASB Statement No. 65 adjustment		(1,785)
Total net position at June 30, 2012, as restated	$	589,147
Total net position at June 30, 2013	$	606,959
GASB Statement No. 65 adjustment		(1,513)
Total net position at June 30, 2013, as restated	$	605,446

(14) Subsequent Event

The following event occurred subsequent to June 30, 2014:

On September 30, 2014, the County Board of Supervisors approved an amendment to the John Wayne Airport (JWA) 1985 Settlement Agreement (Agreement), extending the term through December 31, 2030, and certified the Final Environmental Impact Report 617. The amendment allows the operational capacity at the Airport to remain at currently authorized 10.8 million annual passengers (MAP) through December 31, 2020 and provides for an increase to 11.8 MAP through December 31, 2025 and to 12.2 MAP or 12.5 MAP through December 31, 2030 depending on the actual service level from 2021 to 2025. The amendment maintains the Airport's curfew through December 31, 2035, provides for an increase in the number of regulated flights allocated to passenger commercial carriers at the Airport, and eliminates the limit on permitted number of commercial passenger loading bridges beginning on January 1, 2021. All four signatories have approved the amendment to the Agreement and the Ninth Supplemental Stipulation has been submitted to the U.S. District Court for approval. Refer to Note 1, Reporting entity and Summary of Significant Accounting Policies, for historical information about the Agreement.

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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 John Wayne Airport (Airport), an enterprise fund of the County of Orange, California (County), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2014.

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 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 Gini & O'Connell LLP

Newport Beach, California
December 5, 2014