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

Financial Statements
and Independent Auditor's Reports

For the Year Ended June 30, 2015

Certified
Public
Accountants

JOHN WAYNE AIRPORT
Financial Statements

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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 (Airport), an enterprise fund of the County of Orange, California (County) as of and for the year ended June 30, 2015, 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 audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit 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 John Wayne Airport, as of June 30, 2015, 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 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, 2015, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States America.

As discussed in Note 11 to the financial statements, effective July 1, 2014, the Airport implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An amendment of GASB Statement No. 68*, which resulted in a restatement to beginning net position as discussed in Note 13 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB, 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 3, 2015, 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, 2015. 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 & O'Connell LLP

Newport Beach, California
December 3, 2015

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015
(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 year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the information furnished in the Airport's financial statements.

Financial Highlights

- The Airport's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $619,618 (net position) at June 30, 2015. Of this amount, $146,114 (unrestricted net position) may be used to meet the ongoing obligations of the Airport, $78,862 (restricted net position) was externally restricted for specific purposes, and $394,642 was the net investment in capital assets.
- Current and other assets, excluding capital assets, increased by $30,471 or 10.5% from June 30, 2014 primarily due to an increase in cash and investments.
- Long-term liabilities increased by $29,489 or 14.4% from June 30, 2014 primarily due to an increase in net pension liability for the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68* in the year ended June 30, 2015.
- Change in net position increased by $27,660 or 4.7% of the restated beginning net position for the year ended June 30, 2015. This increase consists of operating income of $11,140, nonoperating revenues of $7,305, and capital grant contributions of $9,215.

Overview of the Financial Statements

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

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 Financial Statements.

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

- 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 outflows and inflows, 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.
- 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 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 to the financial statements, 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, 2015, the Airport's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $619,618.

Net Position:

	2015*	2014	2015 vs 2014 $ Change	2015 vs 2014 % Change
ASSETS				
Current and other assets	$ 320,835	$ 290,364	$ 30,471	10.5 %
Capital assets	587,392	598,816	(11,424)	(1.9) %
TOTAL ASSETS	908,227	889,180	19,047	2.1 %
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,301	--	6,301	N/A
LIABILITIES				
Long-term liabilities	234,190	204,701	29,489	14.4 %
Other liabilties	56,977	56,781	196	0.3 %
TOTAL LIABILITIES	291,167	261,482	29,685	11.4 %
TOTAL DEFERRED INFLOWS OF RESOURCES	3,743	--	3,743	N/A
NET POSITION				
Net investment in capital assets	394,642	400,417	(5,775)	(1.4) %
Restricted net position	78,862	70,612	8,250	11.7 %
Unrestricted net position	146,114	156,669	(10,555)	(6.7) %
TOTAL NET POSITION	$ 619,618	$ 627,698	$ (8,080)	(1.3) %

* As adjusted in the year related to the implementation of GASB Statement No. 68 and 71.

At June 30, 2015, the largest component of the Airport's net position (63.7%) was its net investment in capital assets (e.g., land, structures and improvements, equipment, infrastructure, construction in progress, intangible assets, and intangible assets in progress), 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, 2015, an additional component of the Airport's net position (12.7%) 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 $146,114 (23.6%) is unrestricted and may be used to meet the Airport's ongoing obligations.

Comparison between the years ended June 30, 2015 and 2014:

The Airport's total assets increased by $19,047 or 2.1%. Current and other assets increased by $30,471 or 10.5% primarily due to an increase of $32,080 in pooled cash and investments with Treasurer, as the Airport had more unspent cash from business operations. Capital assets decreased by $11,424 or 1.9% primarily due to the current year depreciation and amortization of $28,561 and a capital asset impairment loss of $4,077, partially offset by an increase of $14,155 in construction in progress and $4,048 in infrastructure. Refer to Note 10 to the financial statements, Changes in Capital Assets, for additional information.

The Airport's total liabilities increased by $29,685 or 11.4%. Long-term liabilities increased by $29,489 or 14.4% mainly due to an increase of $37,013 in net pension liability to report the Airport's long-term pension obligation related to the implementation of GASB Statement No. 68 and 71, partially offset by a decrease of $7,409 for retirement of long-term debt obligations. Refer to Note 3 to the financial statements, Defined Benefit Pension Plan, and Note 5, Long-Term Obligations, for additional information.

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2015
(To the Nearest Thousand)

Revenues, Expenses, and Changes in Net Position:

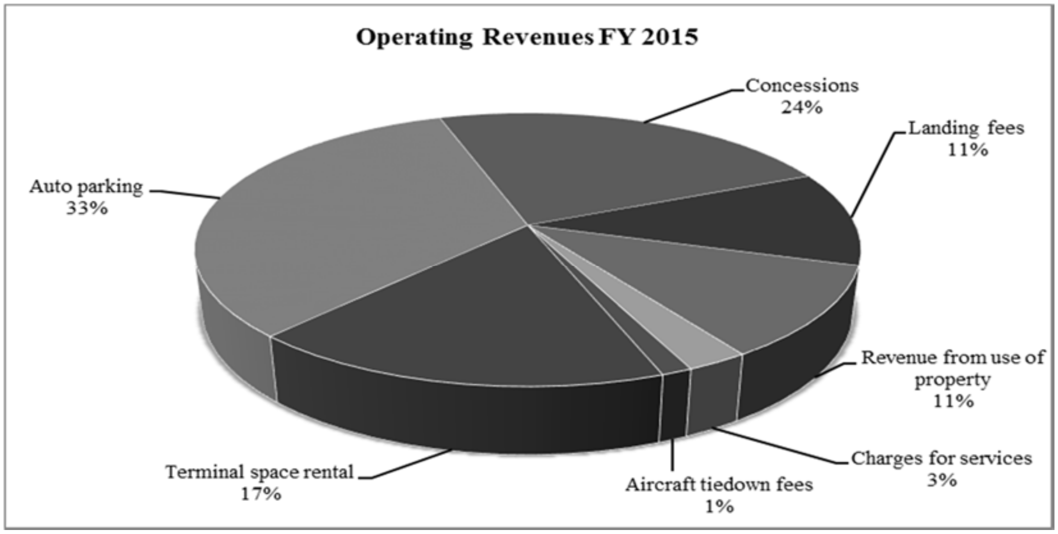
	2015*	2014	2015 vs 2014 % Change
OPERATING REVENUES			
Terminal space rental	$ 21,399	$ 21,308	0.4 %
Auto parking	40,401	38,847	4.0 %
Concessions	28,873	27,171	6.3 %
Landing fees	13,714	13,633	0.6 %
Revenue from use of property	13,356	12,333	8.3 %
Charges for services	3,148	3,155	(0.2) %
Aircraft tiedown fees	1,557	1,479	5.3 %
Total operating revenues	122,448	117,926	3.8 %
OPERATING EXPENSES			
Professional and specialized services	37,581	38,437	(2.2) %
Salaries and employee benefits	19,142	18,746	2.1 %
Other services and supplies	26,024	27,706	(6.1) %
Depreciation and amortization	28,561	26,687	7.0 %
Total operating expenses	111,308	111,576	(0.2) %
Operating income	11,140	6,350	75.4 %
NONOPERATING REVENUES (EXPENSES)			
Interest income	913	812	12.4 %
Interest expense	(9,697)	(9,938)	(2.4) %
Bankruptcy settlement proceeds	957	490	95.3 %
Fines and penalties	164	237	(30.8) %
Other revenue (expense) - net	(3,983)	828	(581.0) %
PFC revenue	18,951	18,196	4.1 %
Total nonoperating revenues	7,305	10,625	(31.2) %
INCOME BEFORE CONTRIBUTIONS	18,445	16,975	8.7 %
Capital grant contributions	9,215	5,277	74.6 %
CHANGE IN NET POSITION	27,660	22,252	24.3 %
TOTAL NET POSITION BEGINNING OF YEAR, AS RESTATED	591,958	605,446	(2.2) %
TOTAL NET POSITION END OF YEAR	$ 619,618	$ 627,698	(1.3) %

*As adjusted in the year related to the implementation of GASB Statement No. 68 and 71.

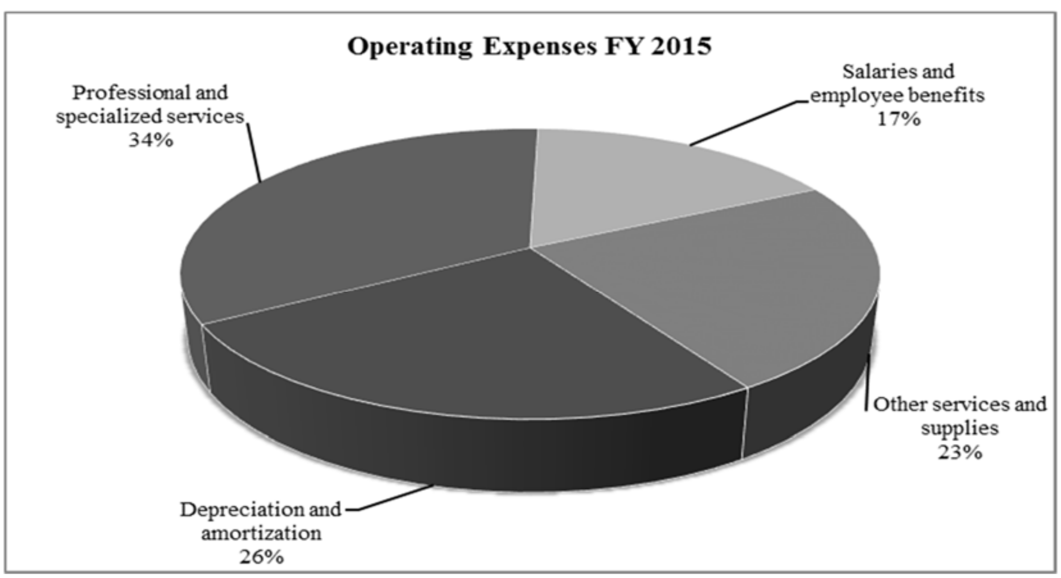
During the year ended June 30, 2015, the Airport's change in net position increased by $27,660 or 4.7% of the restated net position beginning of year.

Comparison between the years ended June 30, 2015 and 2014:

The Airport's operating revenues increased by $4,522 or 3.8% primarily due to an increase in passenger parking, rental car and specialty concession revenues, and revenue from use of property resulting from airlines using the international arrival facilities.



The Airport's operating expenses decreased by $268 or 0.2% primarily due to a decrease in professional and specialized services and other services and supplies, offset by an increase in depreciation and amortization expense.



For the year ended June 30, 2015, the Airport's nonoperating revenues decreased by $3,320 or 31.2% primarily due to a capital asset impairment loss of $4,077. Refer to Note 10 to the financial statements, Changes in Capital Assets, for more information. Capital grant contributions increased by $3,938 or 74.6% due to an increase in cost reimbursements for federally funded construction projects.

Capital Assets

The Airport's capital assets as of June 30, 2015 amounted to $587,392, net of accumulated depreciation and amortization. The investment in capital assets includes land, structures and improvements, equipment, infrastructure (runways, taxiways and aprons), construction in progress, intangible assets, and intangible assets in progress. The total change in capital assets for the year ended June 30, 2015 was a decrease of $11,424 or 1.9%.

Capital Assets (Net of Accumulated Depreciation and Amortization):

	2015*	2014	2015 vs 2014 % Change
CAPITAL ASSETS			
Land	$ 15,678	$ 15,678	0.0 %
Structures and improvements	493,252	518,917	(4.9) %
Equipment	2,934	2,683	9.4 %
Infrastructure	50,134	51,083	(1.9) %
Intangible assets	362	390	(7.2) %
Construction in progress	24,220	10,065	140.6 %
Intangible assets in progress	812	--	N/A
TOTAL CAPITAL ASSETS	$ 587,392	$ 598,816	(1.9) %

A major capital asset completed during the year ended June 30, 2015 was the Bristol Street Slope Stabilization with an approximate cost of $2,861.

The construction costs may include capitalized interest. For additional information regarding capitalization of interest, refer to Note 1 to the financial statements, Reporting Entity and Summary of Significant Accounting Policies.

At June 30, 2015, the Airport was committed under contracts for construction projects in amount of $8,888. Refer to Note 9 to the financial statements, Commitments, for more information.

Long-Term Debt

At June 30, 2015, the Airport had total bond obligation of $202,535 outstanding, excluding compensated absences, net pension liability, 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, 2015:

	2015	2014	2015 vs 2014 % Change
LONG-TERM DEBT OBLIGATIONS			
Airport Revenue Bonds, Series 2009A	$ 62,290	$ 63,785	(2.3) %
Airport Revenue Bonds, Series 2009B	141,985	147,485	(3.7) %
Add: Premium/(Discount) on Bonds Payable	(1,740)	(1,467)	18.6 %
TOTAL LONG-TERM DEBT OBLIGATIONS	$ 202,535	$ 209,803	(3.5) %

During the year ended June 30, 2015, the decrease in the outstanding bonds was due to principal payments and amortization of bond premiums/discounts.

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, 2015			
Airport Revenue Bonds, Series 2009A and 2009B	AA-	Aa3	AA-
June 30, 2014			
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 to the financial statements, Long-Term Obligations.

Other Potentially Significant Matters

Grant Awards:

On September 10, 2015, the Airport was awarded an Airport Improvement Program grant from the Federal Aviation Administration (FAA) in the maximum amount of $2,643 for the Airport's Paularino Gate Improvements project. The grant is a 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. The major project in Phase II of the Airport Improvement Program (AIP II) completed in the year ended June 30, 2015 was the Bristol Street Slope Stabilization. The major projects in AIP II scheduled in the next three years are the multiple components of Terminal Improvements and the Parking Structure C Phase II. The Campus Dr./Bristol St. Right Turn Lane project is slated to be completed in 2016, and the construction for Paularino Street Gate Improvement is scheduled to start in 2016.

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) 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.

The credit card industry established October 1, 2015 as the deadline to implement a new global credit card standard equipped with chip technology (known as EMV-Europay, MasterCard and Visa or Chip and Pin). After this date, the credit card issuers are shifting the liability to the merchants for any fraud resulting from the merchants' inability to process EMV transactions. The parking revenue control system at the Airport was upgraded to comply with this deadline. The Airport has begun upgrading the Common Use Passenger Processing System (CUPPS) to allow airlines to comply with the new credit card standard by replacing and upgrading all CUPPS equipment and kiosks to accept the new chip-enabled credit card transactions. The upgrade also added baggage self-tagging capability to the CUPPS equipment as requested by the airlines.

Settlement Agreement and Passenger Traffic:

In 1985, the County, the City of Newport Beach, and two community groups reached a Settlement Agreement (Agreement) on a 20-year plan for operational and facility growth at the Airport. In 2005, the original four signatories approved an amendment to the Agreement, allowing for the construction of additional facilities and 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. Another amendment to this Agreement was approved by the same four signatories in 2014 extending the term through December 31, 2030. The amendment allows the operational capacity at the Airport to remain at currently authorized 10.8 MAP through December 31, 2020, but 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 Airport passenger traffic has posted monthly increases since the latter part of 2014, and have grown robustly at double-digit rates in the second half of 2015 compared to the same period in 2014. To a large extent, the increases can be attributed to multiple flights added by Southwest Airlines, as well as overall increases by other airlines at the Airport. Alaska Airlines began nonstop international flights to Los Cabos and Puerto Vallarta, Mexico in October 2015. Two new entrant airlines, Horizon and Compass, have proposed to begin services at the Airport in 2016, and new carriers have been added to the waiting list. Passenger levels are expected to exceed 10 million in the year ending June 30, 2016, surpassing the previous record high level of 9.9 million attained in year ended June 30, 2007. Finally, the Airport continues to pursue all avenues to obtain a Port of Entry designation which is important to its ability to maintain and attract international air service.

For additional information related to construction or any other information provided in the report, refer to the Airport's website at http://www.ocair.com or submit to John Wayne Airport, Finance, 3160 Airway Ave., Costa Mesa, CA 92626.

JOHN WAYNE AIRPORT

Statement of Net Position

June 30, 2015

(To the Nearest Thousand)

ASSETS		
Current assets:		
Cash (Note 2)	$	8,335
Pooled cash and investments with Treasurer (Note 2)		125,671
Cash Equivalents/Specific investments with Treasurer (Note 2)		20,755
Imprest cash (Note 2)		14
Accounts receivable		4,305
Interest receivable		433
Due from County of Orange (Note 8)		11
Due from other governmental agencies		3,673
Prepaid expenses		1,923
Current restricted assets:		
Restricted cash and investments with trustee (Note 2)		12,573
Pooled cash and investments held for others (Note 2)		1,075
Pooled cash and investments with Treasurer (Note 2)		69,632
Passenger Facility Charges (PFC) receivable (Note 1)		1,906
Deposits in lieu of cash		27,526
Total current assets		277,832
Noncurrent restricted assets:		
Investments with trustee (Note 2)		13,821
Other noncurrent assets:		
Specific investments with Treasurer (Note 2)		29,182
Capital assets (Note 10):		
Land (Note 6)		15,678
Structures and improvements (Note 6)		741,638
Equipment		12,205
Infrastructure - runways, taxiways and aprons		223,492
Intangible assets		418
Construction in progress		24,220
Intangible assets in progress		812
Less accumulated depreciation/amortization		(431,071)
Total capital assets		587,392
Total noncurrent assets		630,395
TOTAL ASSETS		908,227
DEFERRED OUTFLOWS OF RESOURCES		
Pension amounts (Note 3)		6,301
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	6,301

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Net Position (Continued)
June 30, 2015
(To the Nearest Thousand)

LIABILITIES		
Current liabilities:		
Accounts payable	$	7,816
Salaries payable		896
Interest payable (Note 5)		5,249
Unearned revenue		3,068
Due to County of Orange (Note 8)		2,648
Due to other governmental agencies		195
Pollution remediation obligation (Notes 5 and 12)		55
Compensated employee absences (Note 5)		1,041
Current liabilities payable from restricted assets:		
Bonds payable, net (Note 5)		7,409
Deposits from others		28,600
Total current liabilities		56,977
Noncurrent liabilities:		
Pollution remediation obligation (Notes 5 and 12)		939
Compensated employee absences (Note 5)		1,112
Bonds payable, net (Note 5)		195,126
Net pension liability (Note 3 and 5)		37,013
Total noncurrent liabilities		234,190
TOTAL LIABILITIES		291,167
DEFERRED INFLOWS OF RESOURCES		
Pension amounts (Note 3)		3,743
TOTAL DEFERRED INFLOWS OF RESOURCES		3,743
NET POSITION		
Net investment in capital assets		394,642
Restricted for debt service		7,324
Restricted for PFC (Note 1)		70,538
Restricted for capital projects - replacements and renewals		1,000
Unrestricted		146,114
TOTAL NET POSITION	$	619,618

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2015
(To the Nearest Thousand)

OPERATING REVENUES		
Terminal space rental	$	21,399
Auto parking		40,401
Concessions		28,873
Landing fees		13,714
Revenue from use of property		13,356
Charges for services		3,148
Aircraft tiedown fees		1,557
Total operating revenues		122,448
OPERATING EXPENSES		
Professional and specialized services		37,581
Salaries and employee benefits		19,142
Other services and supplies		26,024
Depreciation and amortization (Note 10)		28,561
Total operating expenses		111,308
Operating income		11,140
NONOPERATING REVENUES (EXPENSES)		
Interest income		913
Interest expense (Note 1)		(9,697)
Bankruptcy settlement proceeds		957
Fines and penalties		164
Other revenue (expense) - net		(3,983)
PFC revenue (Note 1)		18,951
Total nonoperating revenues		7,305
INCOME BEFORE CONTRIBUTIONS		18,445
Capital grant contributions		9,215
CHANGE IN NET POSITION		27,660
TOTAL NET POSITION BEGINNING OF YEAR, AS RESTATED (Note 13)		591,958
TOTAL NET POSITION END OF YEAR	$	619,618

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Cash Flows
For the Year Ended June 30, 2015
(To the Nearest Thousand)

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	121,932
Payments to suppliers for goods and services		(64,443)
Payments to employees for services		(18,704)
Internal activity - receipts from other funds		(64)
Other receipts		1,106
Net cash provided by operating activities		39,827
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental revenues		493
Net cash provided by noncapital financing activities		493
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets		(19,108)
Principal payments on long-term debt		(6,995)
Interest paid on long-term debt		(10,603)
Proceeds from capital grant contributions		9,675
Proceeds from sale of capital assets		12
Receipts from PFC		18,982
Net cash used in capital and related financing activities		(8,037)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of investments, net		(7,380)
Interest received on investments		731
Net cash used in investing activities		(6,649)
NET INCREASE IN CASH AND CASH EQUIVALENTS		25,634
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		212,421
CASH AND CASH EQUIVALENTS - END OF YEAR	$	238,055

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2015
(To the Nearest Thousand)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$	11,140
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization		28,561
Fines and penalties		164
Other revenue		902
(INCREASES) DECREASES IN:		
Accounts receivable		686
Due from County of Orange		(10)
Due from other governmental agencies		(4)
Prepaid expenses		1,457
Deposits in lieu of cash		(211)
Deferred outflow of resources from pension contributions		(3,490)
INCREASES (DECREASES) IN:		
Accounts payable		(709)
Salaries payable		244
Unearned revenue		(930)
Due to County of Orange		(54)
Due to other governmental agencies		(235)
Compensated employee absences		(106)
Deposits from others		282
Pollution remediation obligation		(64)
Net pension liability from pension contributions and expenses		2,204
Net cash provided by operating activities	$	39,827
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash	$	8,335
Pooled cash and investments with Treasurer		125,671
Restricted pooled cash and investments held for others		1,075
Restricted pooled cash and investments with Treasurer		69,632
Imprest cash		14
Specific investments with Treasurer		49,937
Restricted investments with trustee		26,394
Total		281,058
Less: Investments with original maturities of 90 days or more		(29,182)
Investments held with trustee for debt service reserve requirement		(13,821)
TOTAL CASH AND CASH EQUIVALENTS	$	238,055
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Acquisition of capital assets with accounts payable	$	4,035
Change in fair value of investments not considered cash or cash equivalents		(129)
Accrued capital grant contribution receivable		3,454
Loss on disposition of capital assets		4,067

See accompanying notes to financial statements.

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 where applicable, the cash flows of the County in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

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 County's 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.

Note 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).

On September 30, 2014, the proposed project, project alternatives, and final EIR, in support of amendments to the Settlement Agreement previously approved by the signatories, was presented to the Board. The Board approved the proposed Agreement amendment and certified EIR 617.

The amendment allows the operational capacity at the Airport to remain at the currently authorized 10.8 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.

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.

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

Basis of Accounting and Estimates

The Airport prepares its financial statements on the accrual basis of accounting in conformity with U.S. GAAP, which provides that revenues are recorded when earned and expenses are recorded when incurred. The preparation of financial statements in conformity with U.S. 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.

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, $150 for infrastructure, and $0 for land. Depreciation and amortization are calculated 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 10 to 60 years for infrastructure and structures and improvements. No depreciation or amortization is provided on construction in progress or intangible assets in progress until the project is completed 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. 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 year ended June 30, 2015 were $10,225 and $528, respectively.

Bonds Payable and Bond Premiums/Discounts

Bonds payable is reported net of applicable premiums or discounts. Bond premiums and discounts are amortized over the term of the bond using the effective interest rate method.

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

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 with Treasurer and pooled cash and investments held for others are funds that the Airport has on deposit with the Orange County Treasurer's (Treasurer) County Investment Pool (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.

Specific 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 $917,686. 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.

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

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, net of accumulated depreciation, 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, 2015, the Airport reported restricted net position of $78,862 for debt service, Passenger Facility Charges and replacements and renewals, of which $70,538 was restricted by enabling legislation.

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 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 restricted cash and investments with trustee. Related PFC receivables are also reported as current restricted assets.

During the year ended June 30, 2015, $18,951 PFC revenue was reported and $11,116 was expended on FAA approved projects.

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

Comparative Financial Statements

Comparative financial statements are not required and will not be presented in the financial statements for the year ended June 30, 2015. Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68,* require governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability. For the implementation of GASB Statement No. 68 and 71 in the year ended June 30, 2015, prior year data regarding the total pension liability for the County's defined benefit pension plan is unavailable and consequently, the Airport's beginning net position for July 1, 2013 cannot be restated for comparative presentation.

Note 2 – Cash and Investments

The Airport's investment policy guidelines allow for the same types of investments as the Board approved IPS. 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 deposits, repurchase agreements, money market mutual funds, investment pools, and supranational securities. Investments maintained by trustees are governed by the related bond indentures.

Total Airport cash and investments at fair value as of June 30, 2015 was as follows:

Cash and pooled cash and investments:	
Cash on hand	$ 8,349
Pooled cash and investments, restricted	70,707
Pooled cash and investments	125,671
Total cash and pooled cash and investments	204,727
Investments:	
With Treasurer	49,937
With trustee, restricted	26,394
Total investments	76,331
Total cash and investments	$ 281,058

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 shortly following the County bankruptcy.

Note 2 – Cash and Investments (Continued)

Specific 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 IPS. Additional monies may periodically be deposited in the account.

The investment balance was $49,937 at June 30, 2015, of which $20,755, 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 the Federal Deposit Insurance Corporation up to $250.

Note 2 – Cash and Investments (Continued)

Deposits and Investments

As of June 30, 2015, the Airport had the following investments:

	Fair Value	Weighted Average Maturity (Years)
With Treasurer:		
U.S. Government Agencies	$ 42,282	0.15
Negotiable Certificates of Deposit	2,000	0.06
Medium-Term Notes	4,432	0.40
Money Market Mutual Funds	1,223	--
Total investments with Treasurer	$ 49,937	0.16 *
With trustee:		
U.S. Treasuries	$ 13,726	0.73
Money Market Mutual Funds	213	--
Money Market Deposit Accounts	12,455	--
Total deposits and investments with trustee	$ 26,394	0.38 *

* 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. In accordance with the IPS, the Treasurer manages exposure to declines in fair value by limiting the weighted average maturity (WAM) to 60 days for any short-term pool and the maximum maturity to 397 days for short-term pool if short-term and long-term pools are used. At June 30, 2015, the WAM for the Pool approximated 391 days, and the WAM for investments with Treasurer approximated 60 days. As of June 30, 2015, one investment was not in compliance with the restrictive IPS. On June 30, 2015, a $3 million Federal Farm Credit Bank floating rate security was purchased with a final maturity of 496 days, which exceeds the IPS limit for the Airport Pool securities of 397 days. The security was sold on July 2, 2015 at no gain or loss to bring the Airport Pool back into compliance, and the system compliance rules were updated.

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 fiscal year-end, in accordance with the IPS, 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.

Note 2 – Cash and Investments (Continued)

Credit Risk

This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations: Standard & Poor's (S&P), Moody's, or Fitch. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), 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

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with the IPS, the following diversification limits must be applied at the time of purchase of a security.

Type of Investment	Orange County IPS	IPS Maximum Final Maturity (Long-Term Fund)	IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	5 Years	397 Days
U.S. Government Agency Securities	100% Total, no more than 33% in one issuer	5 Years	397 Days
Municipal Debt	30% Total, no more than 5% in one issuer except 10%-County of Orange	5 Years	397 Days
Medium-Term Notes	30% Total, no more than 5% in one issuer	5 Years	397 Days
Bankers' Acceptances	40% Total, no more than 5% in one issuer	180 Days	180 Days
Commercial Paper	40% Total, no more than 5% in one issuer	270 Days	270 Days
Negotiable Certificates of Deposits	30% Total, no more than 5% in one issuer	5 Years	397 Days
Repurchase Agreements	20% Total, no more than 10% in one issuer	1 Year	1 Year
Money Market Mutual Funds	20% Total, no more than 20% in one issuer	N/A	N/A
Investment Pools	20% Total, no more than 10% in one pool	N/A	N/A
Supranationals	30% Total, no more than 5% in one issuer	5 Years	397 Days

Note 2 – Cash and Investments (Continued)

Concentration of Credit Risk (Continued)

At June 30, 2015, 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	0.58%
Federal National Mortgage Association Bonds	AA	Aaa	AAA	14.64%
Federal Farm Credit Bank Discount Notes	A-1	P-1	F1	0.73%
Federal Farm Credit Bank Bonds	AA	Aaa	AAA	5.85%
Federal Home Loan Bank Discount Notes	A-1	P-1	F1	5.68%
Federal Home Loan Bank Bonds	AA	Aaa	AAA	12.74%
Federal Home Loan Mortgage Corporation Discount Notes	A-1	P-1	F1	3.59%
Federal Home Loan Mortgage Corporation Bonds	AA	Aaa	AAA	14.73%
Negotiable Certificates of Deposit	A-1	P-1	F1	1.56%
Medium-Term Corporate Notes				
Corporate Notes	A	Aa	A	1.25%
Corporate Notes	AA	Aa	AA	5.76%
Corporate Notes	AAA	Aaa	AAA	1.74%
Municipal Debt	AA	NR	AA	0.36%
U.S. Treasuries	AA	Aaa	AAA	26.08%
Money Market Mutual Funds	AAA	Aaa	NR	4.71%
Total				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	1.00%
Federal National Mortgage Association Bonds	AA	Aaa	AAA	24.84%
Federal Farm Credit Bank Bonds	AA	Aaa	AAA	15.46%
Federal Home Loan Bank Bonds	AA	Aaa	AAA	27.77%
Federal Home Loan Mortgage Corporation Discount Notes	A-1	P-1	F1	5.04%
Federal Home Loan Mortgage Corporation Bonds	AA	Aaa	AAA	10.56%
Negotiable Certificates of Deposit	A-1	P-1	F1	4.00%
Medium-Term Corporate Notes				
Corporate Notes	AA	Aa	AA	3.74%
Corporate Notes	AA	Aa	NR	1.40%
Corporate Notes	AA	Aaa	AA	3.74%
Money Market Mutual Funds	AAA	Aaa	NR	2.45%
Total				100.00%

Note 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	52.00%
Money Market Mutual Funds	AAA	Aaa	NR	0.81%
Money Market Deposit Accounts	NR	NR	NR	47.19%
Total investments with trustee				100.00%

Note 3 – Defined Benefit Pension Plan

Plan Description

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 of Retirement (OCERS Board) does not set the benefit amounts. OCERS administers benefits that are set by the Board 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.

Note 3 – Defined Benefit Pension Plan (Continued)

Funding Policy

In accordance with various Board's 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 year ended June 30, 2015, the employer's contribution rate as a percentage of covered payroll for general members was 37.34%, as determined by the December 31, 2012 actuarial valuation.

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
2013	$ 2,969	100%
2014	3,088	100%
2015	3,352	100%

Net Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows Related to Pensions

In the year ended June 30, 2015, the County implemented GASB Statement No. 68 and 71, and reported a liability of $3,899,047 for its proportionate share of the net pension liability, of which the Airport's allocated share of the County's net plan liability totaled $37,013. The County's net pension liability was measured as of December 31, 2014, and the total pension liability was determined by an actuarial valuation from OCERS as of that date. The Airport's allocated share of the County's net pension liability is based on its percentage of actual employer contributions.

For the year ended June 30, 2015, the Airport recognized pension expense of $3,894, which represents the change in the net pension liability during the measurement period, adjusted for actual contributions and deferred recognition of changes in investment gain/loss, actuarial assumptions, and plan benefits.

Note 3 – Defined Benefit Pension Plan (Continued)

Net Pension Liability, Pension Expense, and Deferred Outflows and Deferred Inflows Related to Pensions (Continued)

Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner. At June 30, 2015, the Airport reported deferred outflows of resources and deferred inflows of resources related to pension as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on plan investments	$ (1,667)	$ 1,950
Changes of assumptions	(1,105)	1,792
Changes in proportion and differences between Airport contributions and proportionate share of contributions	(39)	1
Contributions subsequent to measurement date	(1,745)	--
Prepaid contributions	(1,745)	--
Total	$ (6,301)	$ 3,743

For additional details on the defined benefit pension plan, actuarial assumptions and pension liability, 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.

Note 4 – Postemployment Health Care Benefits

Plan Description

The Airport is a participant in the County'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.

Note 4 – Postemployment Health Care Benefits (Continued)

Plan Description (Continued)

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, the Airport was required to contribute 3.6% of its payroll for the year ended June 30, 2015. 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
2013	$ 473	100%
2014	483	100%
2015	426	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.

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. 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.

Note 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, 2015, the outstanding principal amount, including net discount, of the 2009A and 2009B Bonds were $61,209 and $141,326, respectively. The interest expense of the 2009A and 2009B Bonds for the year ended June 30, 2015 were $3,148 and $7,350, respectively, including accrued interest of $1,574 and $3,675, 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 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, 2015, the total principal and interest paid and total net revenues were $17,598 and $52,934 respectively. The total net revenues include $11,194 available PFC revenue for the year ended June 30, 2015.

Revenue bonds outstanding and related activity for the year ended June 30, 2015, were as follows:

	Balance at July 1, 2014	Additions	Deductions	Balance at June 30, 2015	Due in 1 year
Airport Revenue Bonds					
Series 2009A	$ 63,785	$ --	$ (1,495)	$ 62,290	$ 1,540
Bond Premium/(Discount)	(1,073)	--	(8)	(1,081)	5
Airport Revenue Bonds					
Series 2009B	147,485	--	(5,500)	141,985	5,665
Bond Premium/(Discount)	(394)	--	(265)	(659)	199
Total	$ 209,803	$ --	$ (7,268)	$ 202,535	$ 7,409

Note 5 – Long-Term Obligations (Continued)

Airport Revenue Bonds, Series 2009A and 2009B (Continued)

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
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	1,810	2,833	6,845	6,003	17,491
2021-2025	10,535	12,634	39,805	24,217	87,191
2026-2030	13,555	9,542	51,170	12,287	86,554
2031-2035	13,040	6,183	8,645	4,114	31,982
2036-2040	16,820	2,298	11,160	1,524	31,802
Total	$62,290	$45,575	$141,985	$75,259	$325,109

Other Long-term Liabilities

Other long-term liability activities for the year ended June 30, 2015 were as follows:

	Balance at July 1, 2014	Additions	Deductions	Balance at June 30, 2015	Due in 1 year
Compensated Employee Absences	$ 2,259	$ 1,629	$ (1,735)	$ 2,153	$ 1,041
Pollution Remediation Obligation	1,058	--	(64)	994	55
Total	$ 3,317	$ 1,629	$ (1,799)	$ 3,147	$ 1,096

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, 2015 were as follows:

	Cost of Leased Property	Accumulated Depreciation of Leased Property	Total Carrying Value of Leased Property
Structures and improvements	$ 72,306	$ (19,667)	$ 52,639
Land	2,429	--	2,429
Balance at June 30, 2015	$ 74,735	$ (19,667)	$ 55,068

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2015 are as follows:

Year Ending June 30,	Future Minimum Rent
2016	36,155
2017	24,624
2018	23,859
2019	14,589
2020	8,461
2021-2025	12,897
2026-2030	426
Total	121,011

Airline minimum rental revenues are based on rates adopted by the Board 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 $28,172 for the year ended June 30, 2015.

Note 7 – Commitments under Operating Leases

Lease expense was $258 for the year ended June 30, 2015. As of June 30, 2015, there was $17 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 $23,202 for the year ended June 30, 2015.

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.

The composition of interfund balances as of June 30, 2015, was as follows:

Due To	Due From	Amount	
Airport	General Fund	$	11
Total Due From County of Orange		$	11
General Fund	Airport	$	2,139
Internal Service Funds	Airport		481
Other Government Funds	Airport		28
Total Due To County of Orange		$	2,648

Note 9 – Commitments

At June 30, 2015, the Airport was committed under contracts for the following construction projects:

Parking Structure C, Phase 2	$	2,652
Main Street & Employee Lot Resurfacing		2,583
Terminals A & B Improvements		1,329
Campus Dr./Bristol St. Right Turn Lane		1,178
Other		1,146
Total	$	8,888

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2015
(To the Nearest Thousand)

Note 10 – Changes in Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance at June 30, 2014	Additions	Deductions	Adjustments	Balance at June 30, 2015
Capital assets, not depreciated/amortized:					
Land	$ 15,678	$ --	$ --	$ --	$ 15,678
Construction in progress	10,065	19,641	(5,486)	--	24,220
Intangible assets in progress	--	812	--	--	812
Total capital assets, not depreciated/amortized	25,743	20,453	(5,486)	--	40,710
Capital assets, depreciated/amortized:					
Structures and improvements	745,199	1,400	(4,877)	(84)	741,638
Equipment	12,207	817	(903)	84	12,205
Infrastructure	219,444	4,048	--	--	223,492
Intangible assets	418	--	--	--	418
Total capital assets, depreciated/amortized	977,268	6,265	(5,780)	--	977,753
Less accumulated depreciation/amortization:					
Structures and improvements	(226,282)	(22,904)	800	--	(248,386)
Equipment	(9,524)	(632)	885	--	(9,271)
Infrastructure	(168,361)	(4,997)	--	--	(173,358)
Intangible assets	(28)	(28)	--	--	(56)
Total accumulated depreciation/amortization	(404,195)	(28,561)	1,685	--	(431,071)
Total capital assets depreciated/amortized, net	573,073	(22,296)	(4,095)	--	546,682
Total capital assets, net	$ 598,816	$ (1,843)	$ (9,581)	$ --	$ 587,392

Total depreciation and amortization expense for the year ended June 30, 2015 was $28,561.

The Airport reported an impairment loss of $4,077 on the Statement of Revenues, Expenses, and Changes in Net Position as other nonoperating expense. The loss is related to the existing Common Use Passenger Processing System (CUPPS) hardware and software that are obsolete due to the new global credit card industry standards for authenticating and processing chip and pin credit card transactions.

The Airport's Terminal A&B was originally capitalized as one aggregate asset with an estimated useful life of 45 years in 1990. In preparation of the accounting estimate and entries for the upcoming Terminal Improvements project, the Airport re-evaluated the estimated useful life for Terminal A&B and re-calculated the depreciation expense based on the structural and non-structural component percentages from Terminal C, which was capitalized in 2011. As a result, the Airport adjusted the estimated useful life to 60 years for the structural component and 31 years for the non-structural component of Terminal A&B and reported $270 additional depreciation expense in the year ended June 30, 2015.

Note 11 – New Accounting Pronouncements

The following summarizes recent GASB pronouncements implemented or effective in the year ended June 30, 2015:

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 GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of GASB 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. The Airport implemented this Statement in the year ended June 30, 2015. Refer to Note 13, Change in Accounting Principle, for additional information.

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. The Airport implemented this Statement in the year ended June 30, 2015; however, this Statement did not affect the Airport's financial statements.

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. The Airport implemented both Statements in the year ended June 30, 2015.

Note 11 – New Accounting Pronouncements (Continued)

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

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, which requires the Airport to implement this Statement in the year ending June 30, 2016.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* which results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27,* as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans,* and Statement No. 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 and June 15, 2016, which requires the Airport to implement this Statement as early as in the year ending June 30, 2016.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* which results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes new accounting and financial reporting requirements for OPEB plans and replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures.* This Statement is effective for financial statements for periods beginning after June 15, 2016, which requires the Airport to implement this Statement in the year ending June 30, 2017.

Note 11 – New Accounting Pronouncements (Continued)

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement is effective for financial statements for periods beginning after June 15, 2017, which requires the Airport to implement this Statement in the year ending June 30, 2018.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,* in order to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The *GAAP hierarchy* consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively, which requires the Airport to implement this Statement in the year ending June 30, 2016.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The Airport does not enter into tax abatement agreements; therefore, this Statement does not apply to the Airport's financial statements.

Note 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 were 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, 2015, the Airport has a liability of $994 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 $299 as of June 30, 2015.

The estimated pollution remediation obligation as of June 30, 2015 is:

Old Fuel Farm Site	$	785
Former Fire Station #33 Site		692
Less: Remediation Activity		(483)
Net Pollution Remediation Obligation	$	994

Note 13 - Change in Accounting Principle

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68,* require 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. In the year ended June 30, 2015, the Airport implemented these Statements and restated the beginning net position as of July 1, 2014 by $35,740 to recognize the net pension liability. The adjustment is reflected in the net position beginning of year in the Statement of Revenues, Expenses, and Changes in Net Position:

Net position at July 1, 2014, as previously reported	$	627,698
GASB Statement No. 68 adjustment		(35,740)
Net position at July 1, 2014, as restated	$	591,958

Refer to Note 11, New Accounting Pronouncements, and Note 3, Defined Benefit Pension Plan, for additional information regarding GASB Statement No. 68 and 71 and Airport's implementation of these Statements.

Note 14 – Subsequent Event

On October 20, 2015, the Board appointed Barry Rondinella as the new Airport Director, and his term began on November 13, 2015.

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, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2015.

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 opinions 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 Airport’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 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 Airport'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 Airport's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Newport Beach, California
December 3, 2015