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, 2012 and 2011

JOHN WAYNE AIRPORT FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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Vavrinek, Trine, Day & Co., LLP Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors County of Orange, California

We have audited the accompanying financial statements of John Wayne Airport (the Airport), an enterprise fund of the County of Orange, California (the County) as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only John Wayne Airport, an enterprise fund of the County of Orange, California and do not purport to, and do not, present fairly the financial position of the County of Orange, California as of June 30, 2012 and 2011, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2012, on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Laguna Hills, California November 28, 2012

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(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 fiscal years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with the information furnished in the Airport's basic financial statements.

Financial Highlights

- The assets of the Airport exceeded its liabilities by \$590,932 (net assets) as of June 30, 2012. Of this amount, \$152,453 (unrestricted net assets) may be used to meet the ongoing obligations of the Airport, \$58,149 (restricted net assets) was restricted for specific purposes, and \$380,330 was invested in capital assets, net of related debt.
- Total net assets increased by \$28,935 or 5.1% for the fiscal year ended June 30, 2012. This increase is primarily attributed to operating income of \$12,665 and passenger facility charges (PFC) revenue of \$17,500.
- Long-term debt decreased by \$9,425 or 3.7% for the fiscal year ended June 30, 2012.
- Capital assets increased by \$52,329 or 9.3% for the fiscal year ended June 30, 2012.

Overview of the Basic Financial Statements

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

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

The Airport is an enterprise fund 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 U.S. generally accepted accounting principles.

- <u>Statement of Net Assets</u> is the basic statement of position for the Airport. All Airport assets and liabilities, both financial and capital, short-term and long-term 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 Assets</u> is the basic 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 basic financial statement classifying the Airport's cash and cash equivalents receipts (inflows) and payments (outflows) resulting from operating, noncapital financing, capital and related financing, or investing activities.
- Notes to the Basic Financial Statements provide additional information that is necessary to acquire a full understanding of the data provided in the basic financial statements.

(to the nearest thousand)

Overview of the Basic Financial Statements (continued)

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

Financial Analysis

Net assets over time may serve as a useful indicator of the Airport's financial position. At June 30, 2012 and 2011, the assets of the Airport exceeded its liabilities by \$590,932 (an increase of 5.1%) and \$561,997 (an increase of 9.0%), respectively.

Net Assets:

			2012 vs 2011		2011 vs 2010
	2012	 2011	% Change	2010	% Change
ASSETS					
Current and other assets	\$ 288,516	\$ 327,029	(11.8) %	\$ 428,057	(23.6) %
Capital assets	618,036	 565,707	9.3 %	416,926	35.7 %
TOTAL ASSETS	 906,552	 892,736	1.5 %	 844,983	5.7 %
LIABILITIES					
Long-term liabilities	242,235	251,660	(3.7) %	259,250	(2.9) %
Other liabilties	73,385	79,079	(7.2) %	 70,273	12.5 %
TOTAL LIABILITIES	 315,620	330,739	(4.6) %	329,523	0.4 %
NET ASSETS					
Invested in capital assets, net of related debt	380,330	387,687	(1.9) %	326,221	18.8 %
Restricted net assets	58,149	50,899	14.2 %	48,226	5.5 %
Unrestricted net assets	152,453	 123,411	23.5 %	141,013	(12.5) %
TOTAL NET ASSETS	\$ 590,932	\$ 561,997	5.1 %	\$ 515,460	9.0 %

At June 30, 2012 and 2011, the largest component of the Airport's net assets (64.4% and 69.0%) was its investment in capital assets (e.g., land, structures and improvements, equipment, construction in progress and infrastructure), less any related outstanding debt used to acquire those 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 this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

(to the nearest thousand)

Financial Analysis (continued)

At June 30, 2012 and 2011, an additional component of the Airport's net assets (9.8% and 9.1%) represents resources that are subject to external restrictions on how they may be used (debt service, PFC and replacement and renewals for capital projects). The remaining net assets balance of \$152,453 (25.8%) and \$123,411 (22.0%) is unrestricted and may be used to meet the Airport's ongoing obligations.

As of June 30, 2012:

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

The Airport's total liabilities decreased by \$15,119 or 4.6%. Long-term liabilities decreased by \$9,425 or 3.7% due to the retirement of long-term debt obligations. Refer to Note 5, Long-Term Obligations, for additional information. Other liabilities decreased by \$5,694 or 7.2% due primarily to the recognition of the reimbursement of capital expenditures for the hydrant fuel line extension at the newly constructed South Remain Over Night Parking Area and a decrease in the acquisition of capital assets with accounts payable, which was offset by an increase of deposits held for others for new leases and licenses.

As of June 30, 2011:

The Airport's total assets increased by \$47,753 or 5.7%. Current and other assets decreased by \$101,028 or 23.6% due primarily to costs for the construction of the AIP. Capital Assets increased by \$148,781 or 35.7%, which can be primarily attributed to construction for the AIP.

The Airport's total liabilities increased by \$1,216 or 0.4%. Long-term liabilities decreased by \$7,590 or 2.9% due to the retirement of long-term debt obligations. Refer to Note 5, Long-Term Obligations, for additional information. Other liabilities increased by \$8,806 or 12.5% due primarily to the deferred revenue associated with the reimbursement of capital expenditures for the hydrant fuel line extension and an increase in the acquisition of capital assets with accounts payable.

(to the nearest thousand)

Financial Analysis (continued)

Changes in Net Assets:

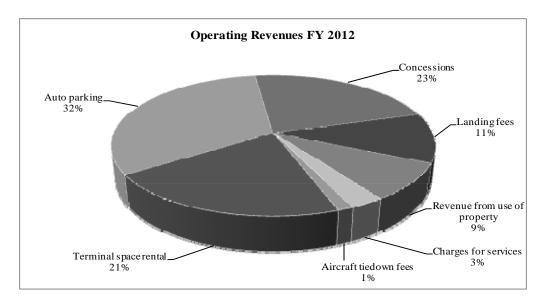
	 2012	 2011	2012 vs 2011 % Change	 2010	2011 vs 2010 % Change
OPERATING REVENUES					
Terminal space rental	\$ 23,718	\$ 21,562	10.0 %	\$ 24,572	(12.2) %
Auto parking	35,842	35,512	0.9 %	35,516	0.0 %
Concessions	25,145	24,268	3.6 %	23,515	3.2 %
Landing fees	12,561	12,369	1.6 %	11,970	3.3 %
Revenue from use of property	9,475	8,554	10.8 %	8,410	1.7 %
Charges for services	3,246	2,718	19.4 %	3,018	(9.9) %
Aircraft tiedown fees	1,477	1,479	(0.1) %	 1,472	0.5 %
Total operating revenues	111,464	 106,462	4.7 %	 108,473	(1.9) %
OPERATING EXPENSES					
Professional and specialized services	34,426	33,444	2.9 %	31,564	6.0 %
Salaries and employee benefits	18,680	18,118	3.1 %	17,334	4.5 %
Other services and supplies	24,708	19,110	29.3 %	19,873	(3.8) %
Depreciation	20,985	15,830	32.6 %	19,684	(19.6) %
Total operating expenses	98,799	86,502	14.2 %	88,455	(2.2) %
Operating income	12,665	 19,960	(36.5) %	20,018	(0.3) %
NONOPERATING REVENUES (EXPENSES)					
Interest income	986	1,857	(46.9) %	1,667	11.4 %
Interest expense	(6,295)	(292)	2055.8 %	(344)	(15.1) %
Bankruptcy settlement proceeds	611	562	8.7 %	619	(9.2) %
Fines and penalties	248	242	2.5 %	200	21.0 %
Other revenue (expense) - net	(692)	65	(1164.6) %	158	(58.9) %
PFC revenue	17,500	 17,599	(0.6) %	 17,979	(2.1) %
Total nonoperating revenues (expenses)	 12,358	 20,033	(38.3) %	 20,279	(1.2) %
INCOME BEFORE CONTRIBUTIONS	25,023	39,993	(37.4) %	40,297	(0.8) %
Capital contributions			0.0 %	370	(100.0) %
Capital grant contributions	 3,912	 6,544	(40.2) %	 7,707	(15.1) %
CHANGES IN NET ASSETS	28,935	46,537	(37.8) %	48,374	(3.8) %
TOTAL NET ASSETS BEGINNING OF YEAR	 561,997	 515,460	9.0 %	 467,086	10.4 %
TOTAL NET ASSETS END OF YEAR	\$ 590,932	\$ 561,997	5.1 %	\$ 515,460	9.0 %

(to the nearest thousand)

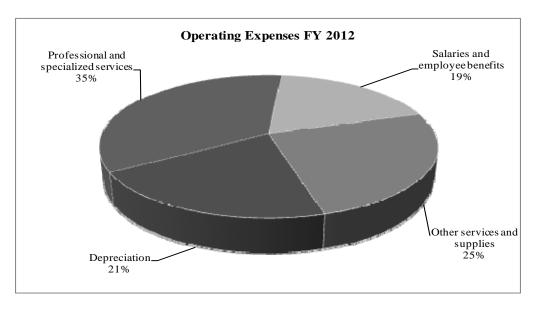
Financial Analysis (continued)

In fiscal years ended June 30, 2012 and 2011, the Airport's net assets increased by \$28,935 or 5.1% and \$46,537 or 9.0%.

For fiscal year ended June 30, 2012:



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



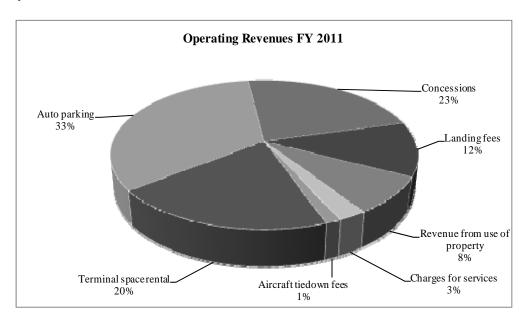
(to the nearest thousand)

Financial Analysis (continued)

For fiscal year ended June 30, 2012 (continued):

The Airport's operating expenses increased by \$12,297 or 14.2% primarily due to an increase in other services and supplies, for Central Utility Plant maintenance costs, new furnishing for Terminal C and depreciation expense, as a result of capital assets placed into service such as Terminal C and Parking Structure C. Interest expense increased by \$6,003 primarily due to a decrease in the amount of interest capitalized as part of construction-in-progress, attributed to the long-term obligations. Refer to Note 1, Reporting Entity and Summary of Significant Accounting Policies, for additional information.

For fiscal year end June 30, 2011:

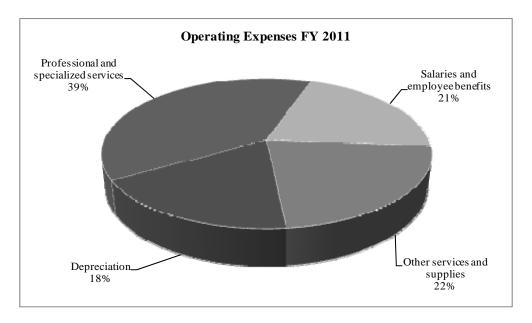


The Airport's operating revenues decreased by \$2,011 or 1.9% primarily due to a decrease in terminal space rental revenue as a result of aeronautical cost savings, which were passed on to the airlines via the rates and charges. Capital grant contributions decreased by \$1,163 or 15.1% due to a decrease in Federal Aviation Administration grant monies for construction of related activities.

(to the nearest thousand)

Financial Analysis (continued)

For fiscal year ended June 30, 2011 (continued):



The Airport's operating expenses decreased by \$1,953 or 2.2% primarily due to a decrease in depreciation expense as a result of capital assets, associated with the opening of the Thomas F. Riley Terminal, fully depreciating. This was partially offset by an increase in professional services for parking operating services and airport security.

Capital Assets

The Airport's investment in capital assets as of June 30, 2012 and 2011, amounts to \$618,036 and \$565,707 (net of accumulated depreciation), respectively. This investment in capital assets includes land, structures and improvements, equipment, infrastructure (runways, taxiways and aprons) and construction in progress. The total increase in capital assets for the years ended June 30, 2012 and 2011 was 9.3% and 35.7%.

(to the nearest thousand)

Capital Assets (continued)

Capital Assets (Net of Depreciation):

	 2012	 2011	2012 vs 2011 % Change	 2010	2011 vs 2010 % Change
CAPITAL ASSETS					
Land	\$ 15,678	\$ 15,678	0.0 %	\$ 15,678	0.0 %
Structures and Improvements	500,160	172,641	189.7 %	145,551	18.6 %
Equipment	2,775	2,654	4.6 %	2,713	(2.2) %
Infrastructure	53,457	63,342	(15.6) %	64,261	(1.4) %
Construction in progress	 45,966	311,392	(85.2) %	 188,723	65.0 %
TOTAL CAPITAL ASSETS	\$ 618,036	\$ 565,707	9.3 %	\$ 416,926	35.7 %

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

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

Major capital asset events during fiscal year ended June 30, 2011 included the following:

• The Central Utility Plant (CUP) and Cogeneration Facility was completed and placed into service at a cost of \$37,620.

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.

Additional information on the Airport's construction commitments and capital assets can be found in Note 9, Contingencies and Commitments and Note 10, Changes in Capital Assets.

(to the nearest thousand)

Long-Term Debt

At June 30, 2012 and 2011, the Airport had total bonded debt outstanding of \$248,900 and \$256,682, excluding compensated absences and other liabilities. The debt is secured by a pledge of operating revenues, net of specified operating expenses, interest earnings, other miscellaneous revenue and available PFC revenue.

The following summarizes the Airport's outstanding bonds at June 30, 2012 and 2011:

	2012	2011	2012 vs 2011 % Change	2010	2011 vs 2010 % Change
LONG-TERM DEBT BOND OBLIGATIONS	 			2010	
Airport Revenue Refunding Bonds, Series 2003	\$ 27,010	\$ 30,175	(10.5) %	\$ 33,190	(9.1) %
Airport Revenue Bonds, Series 2009A	66,645	66,985	(0.5) %	67,305	(0.5) %
Airport Revenue Bonds, Series 2009B	157,340	161,685	(2.7) %	165,810	(2.5) %
Add: Premium/(Discount) on Bonds Payable	(177)	392	(145.2) %	1,096	(64.2) %
Less: Deferred Amount on Refunding	 (1,918)	 (2,555)	(24.9) %	 (3,303)	(22.6) %
TOTAL LONG-TERM DEBT BOND OBLIGATIONS	\$ 248,900	\$ 256,682	(3.0) %	\$ 264,098	(2.8) %

In fiscal years ended June 30, 2012 and 2011, no changes occurred to the Airport's underlying debt ratings as compared to the previous year.

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

	Standard and Poor's	Moody's	Fitch
LONG-TERM DEBT RATINGS			
June, 30, 2012			
Airport Revenue Refunding Bonds, Series 2003	AA-	Aa3	AA-
Airport Revenue Bonds, Series 2009A and 2009B	AA-	Aa3	AA-
June, 30, 2011			
Airport Revenue Refunding Bonds, Series 2003	AA-	Aa3	AA-
Airport Revenue Bonds, Series 2009A and 2009B	AA-	Aa3	AA-
June, 30, 2010			
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.

(to the nearest thousand)

Other Potentially Significant Matters

Grant Awards:

On September 11, 2012, the Airport was awarded an Airport Improvement Program grant from the Federal Aviation Administration (FAA) in the maximum amount of \$3,447 for the Airport's rehabilitation/reconstruction of the Airport's perimeter road. This is a reimbursement type grant.

Long-term financial planning:

<u>Airport Improvement Program</u>: The Airport has completed the majority of the Airport Improvement Program (AIP) resulting in additional terminal area capacity in the form of new aircraft gates, holdrooms, concessions, passenger/baggage screening capabilities, and more parking. The improvements have helped to redistribute passenger traffic between Terminals A, B and C, thus achieving a balanced operation throughout the Riley Terminal complex.

The AIP includes the construction of a new multi-level 282,000 square foot Terminal C, two new commuter/regional terminals, a South Remain-Over-Night aircraft parking area, Parking Structure C, a Central Utility Plant (CUP) and Cogeneration Facility, Federal Inspection Services (FIS) area and improvements to existing Terminals A and B. Both Terminal C and Parking Structure C opened on November 14, 2011. Also in 2011, the CUP and Cogeneration Facility, which provide approximately 95% of the Airport's power needs, were completed. The new facilities have helped support the introduction of new nonstop service at the Airport. Since Spring 2011, John Wayne Airport has added nonstop flights to three destinations in Mexico (Cabo San Lucas, Guadalajara and Mexico City), two in Canada (Calgary and Vancouver) and two in the United States (Houston Hobby and Mammoth Lakes).

The financing plan for the AIP, which is estimated to cost approximately \$543,000, was implemented pursuant to the comprehensive financial program approved by the Board in December 2005 (and updated in mid-2007). The capital costs are to be funded from various sources, including: (1) Airport revenues; (2) FAA Airport Improvement Program grants; (3) Transportation Security Administration (TSA) grants; (4) Passenger Facility Charge (PFC) revenues; (5) airport revenue bonds; and (6) future subordinated debt. In July 2009, the County issued \$233,115 in Airport Revenue Bonds, Series 2009A and 2009B, to finance a portion of the AIP. Refer to Note 5, Long-Term Obligation, for additional information on the bonds.

<u>Long-term debt defeasance</u>: The Airport plans to execute an in-substance defeasance of the Airport Revenue Refunding Bonds, Series 2003 (2003 Bonds) in the principal amount of \$23,685 during the fiscal year ending June 30, 2013. This will fund the full redemption of the remaining 2003 Bonds principal balance that is eligible for redemption on July 1, 2013. The redemption will result in interest savings of \$3,107. Refer to Note 5, Long-Term Obligation, for additional information on the bonds.

(to the nearest thousand)

Request for Information

This financial report is designed to provide a general overview of the Airport's finances. For questions or comments concerning any of the information provided in this report or requests for additional financial information should be addressed to John Wayne Airport, Eddie Martin Administration Building, 3160 Airway Avenue, Costa Mesa, CA 92626 or you can access our website at http://www.ocair.com.

JOHN WAYNE AIRPORT STATEMENTS OF NET ASSETS JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Current assets:		
Cash (Note 2)	\$ 2,334	\$ 5,475
Pooled cash and investments with Treasurer (Note 2)	101,114	73,113
Cash Equivalents/Specific investments with Treasurer (Note 1 and 2)	33,387	36,297
Imprest cash (Note 2)	14	14
Accounts receivable	5,141	4,449
Interest receivable	485	458
Due from County of Orange (Note 11)	565	
Due from other governmental agencies	3,552	4,066
Prepaid expenses	2,683	3,375
Debt issuance costs (Note 1)	169	197
Current restricted assets:		
Restricted cash and investments with trustee (Note 2)	15,507	14,635
Pooled cash and investments held for others (Note 2)	1,152	1,156
Pooled cash and investments with Treasurer (Note 2)	46,652	119,949
Passenger Facility Charges (PFC) receivable (Note 1)	2,350	2,012
Deposits in lieu of cash	36,992	28,312
Total current assets	252,097	293,508
Noncurrent restricted assets:		
Investments with trustee (Note 2)	18,451	18,451
Capital assets:		
Land (Note 10)	15,678	15,678
Structures and Improvements (Note 10)	682,697	342,728
Equipment (Note 10)	11,855	11,549
Infrastructure - runways, taxiways and aprons (Note 10)	212,705	215,607
Construction in progress (Note 10)	45,966	311,392
Less accumulated depreciation (Note 10)	(350,865)	(331,247)
Total capital assets	618,036	565,707
Other noncurrent assets:		
Investments with Treasurer (Note 2)	16,352	13,285
Debt issuance costs (Note 1)	1,616	1,785
Total noncurrent assets	654,455	599,228
TOTAL ASSETS	\$ 906,552	\$ 892,736

JOHN WAYNE AIRPORT STATEMENTS OF NET ASSETS (CONTINUED) JUNE 30, 2012 AND 2011

		2012	2011		
LIABILITIES	-				
Current liabilities:					
Accounts payable	\$	12,478	\$	24,610	
Salaries payable		770		707	
Interest payable		6,211		6,382	
Deferred revenue		2,294		6,878	
Due to County of Orange (Note 11)		2,527		2,129	
Due to other governmental agencies		535			
Pollution remediation obligation (Note 5 and 13)		98		17	
Compensated employee absences (Note 1 and 5)		1,131		1,106	
Current liabilities payable from restricted assets:					
Bonds payable, net of deferred amounts on refundings					
and premiums (Note 5)		9,207		7,782	
Deposits from others		38,134		29,468	
Total current liabilities		73,385		79,079	
Noncurrent liabilities:					
Arbitrage rebate payable (Note 5)		149		107	
Pollution remediation obligation (Note 5 and 13)		1,110		1,357	
Compensated employee absences (Note 1 and 5)		1,283		1,296	
Bonds payable, net of deferred amounts on refundings					
and premiums (Note 5)		239,693		248,900	
Total noncurrent liabilities		242,235		251,660	
TOTAL LIABILITIES		315,620		330,739	
NET ASSETS					
Invested in capital assets, net of related debt		380,330		387,687	
Restricted for debt service		9,296		8,253	
Restricted for PFC (Note 1)		47,853		41,646	
Restricted for capital projects - replacements and renewals		1,000		1,000	
Unrestricted		152,453		123,411	
TOTAL NET ASSETS	\$	590,932	\$	561,997	

JOHN WAYNE AIRPORT STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012		2011	
OPERATING REVENUES				
Terminal space rental	\$	23,718	\$	21,562
Auto parking		35,842		35,512
Concessions		25,145		24,268
Landing fees		12,561		12,369
Revenue from use of property		9,475		8,554
Charges for services		3,246		2,718
Aircraft tiedown fees		1,477		1,479
Total operating revenues		111,464		106,462
OPERATING EXPENSES				
Professional and specialized services		34,426		33,444
Salaries and employee benefits		18,680		18,118
Other services and supplies		24,708		19,110
Depreciation		20,985		15,830
Total operating expenses		98,799		86,502
Operating income		12,665		19,960
NONOPERATING REVENUES (EXPENSES)				
Interest income (Note 1)		986		1,857
Interest expense (Note 1)		(6,295)		(292)
Bankruptcy settlement proceeds		611		562
Fines and penalties		248		242
Other revenue (expense) - net		(692)		65
PFC revenue		17,500		17,599
Total nonoperating revenues (expenses)		12,358		20,033
INCOME BEFORE CONTRIBUTIONS		25,023		39,993
Capital grant contributions		3,912		6,544
CHANGES IN NET ASSETS		28,935		46,537
TOTAL NET ASSETS BEGINNING OF YEAR		561,997		515,460
TOTAL NET ASSETS END OF YEAR	\$	590,932	\$	561,997

JOHN WAYNE AIRPORT STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012		2011		
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$	112,190	\$	107,268	
Payments to suppliers for goods and services		(59,322)		(52,208)	
Payments to employees for services		(17,921)		(21,130)	
Internal activity - receipts from other funds		(167)		185	
Other receipts		718		789	
Net cash provided by operating activities		35,498		34,904	
CASH FLOWS FROM NONCAPITAL					
FINANCING ACTIVITIES					
Intergovernmental revenues		155		68	
Net cash provided by in noncapital financing activities		155		68	
CASH FLOWS FROM CAPITAL AND					
RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets		(85,406)		(147,725)	
Principal payments on long-term debt		(7,850)		(7,460)	
Interest paid on long-term debt (Note 1)		(12,592)		(12,905)	
Proceeds from capital grant contributions		4,457		7,626	
Proceeds from sale of capital assets		15		11	
Reimbursement of capital expenditures				5,593	
Receipts from PFC		17,162		18,031	
Net cash used in capital and related financing activities		(84,214)		(136,829)	
CASH FLOWS FROM INVESTING ACTIVITIES					
Sales (Purchases) of investments, net		(3,067)		4,679	
Interest received on investments		1,149		3,112	
Net cash provided (used) by investing activities		(1,918)		7,791	
NET DECREASE IN CASH AND CASH EQUIVALENTS		(50,479)		(94,066)	
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		250,639		344,705	
CASH AND CASH EQUIVALENTS - END OF YEAR	\$	200,160	\$	250,639	

JOHN WAYNE AIRPORT STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(to the nearest thousand)

	2012		2011
RECONCILIATION OF OPERATING INCOME TO NET			
CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income	\$	12,665	\$ 19,960
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH			
PROVIDED/USED BY OPERATING ACTIVITIES:			
Depreciation		20,985	15,830
Fines and Penalties		248	242
Other Revenue		482	476
(INCREASES) DECREASES IN ASSETS:			
Accounts receivable		(692)	822
Due from County of Orange		(565)	1
Prepaid expenses		692	(3,266)
Deposits in lieu of cash		(8,680)	2,410
INCREASES (DECREASES) IN LIABILITIES:			
Accounts payable		(196)	343
Salaries payable		63	92
Deferred revenue		1,009	(224)
Due to County of Orange		398	184
Due to other governmental agencies		535	
Compensated employee absences payable		12	165
Deposits from others		8,666	(2,065)
Arbitrage rebate payable		42	42
Pollution remediation obligation		(166)	(108)
Net cash provided by operating activities	\$	35,498	\$ 34,904
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO			
STATEMENT OF NET ASSETS			
Cash	\$	2,334	\$ 5,475
Pooled cash and investments		101,114	73,113
Restricted pooled cash and investments held for others		1,152	1,156
Restricted pooled cash and investments with Treasurer		46,652	119,949
Imprest cash		14	14
Investments with Treasurer		49,739	49,582
Restricted investments with Trustee		33,958	33,086
Total		234,963	282,375
Less: Investments with original maturities of three months or more		(34,803)	(31,736)
TOTAL CASH AND CASH EQUIVALENTS	\$	200,160	\$ 250,639
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		•	_
Acquisition of capital assets with accounts payable	\$	9,042	\$ 20,978
Acquisition of capital assets with capitalized interest payable		6,211	6,382
Change in fair value of investments not considered cash or cash equivalents		(47)	(47)
Accrued capital grant contribution receivable		3,370	3,915
Accrued PFC receivable		2,350	2,012
			•

See accompanying notes to financial statements.

(to the nearest thousand)

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

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

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

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

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

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

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

(to the nearest thousand)

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

Description of Reporting Entity (continued)

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

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

The Airport Improvement Program (AIP) includes construction of a new multi-level 282,000 square foot terminal building (Terminal C) with six new commercial passenger gates, new security checkpoints, greater baggage screening capability and concessions. The project also includes construction of new permanent commuter/regional holdrooms at the north and south ends of the extended Terminal, replacement of passenger boarding bridges at all 14 existing gates in Terminals A and B, as well as other upgrades to Terminals A and B. As part of the Terminal C project, two gates in the existing Riley Terminal were modified to accommodate United States Customs and Border Protection (CBP) processing of international passengers. Construction of the South Remain-Over-Night (South RON) aircraft parking area, a major enabling project, was completed in 2009. A new parking structure (Parking Structure C) replaced Parking Structure B1 which was deconstructed in June 2009 to make way for Terminal C. The Central Plant, opened in December 2010, supports the production of chilled water for the air conditioning system and electric power for the entire Airport. Both Terminal C and Parking Structure C opened on November 14, 2011.

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

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.

(to the nearest thousand)

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

Passenger Facility Charges (continued)

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 PFCs collected are restricted and are categorized as nonoperating revenues. PFCs 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 Assets as current restricted assets, pooled cash and investments held with the Treasurer and cash and investments with trustee. Related PFC receivables are also reported as current restricted assets.

During the fiscal years ended June 30, 2012 and 2011, \$17,162 and \$18,031 in PFC revenue was collected and \$11,436 and \$11,148 was expended on FAA approved projects, respectively.

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.

Under Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting, the Airport has elected to apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Airport has elected not to apply FASB pronouncements issued after November 30, 1989 when preparing the fund financial statements.

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.

(to the nearest thousand)

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

Basis of Accounting and Estimates (continued)

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 market 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, \$0 for infrastructure and \$0 for land. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets, which range from 3 to 20 years for equipment and 15 to 45 years for infrastructure and structures. No depreciation is provided on construction in progress until construction 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. In the case of capital acquisitions financed by externally restricted tax-exempt debt, the amount of interest capitalized is calculated by netting interest expense on a borrowing against related interest earnings on the reinvested unexpended debt proceeds. During the fiscal year ended June 30, 2012, the total interest expense and interest revenue were \$5,059 and \$190, respectively, and the net amount of \$4,869 was included as part of the cost of capital assets under construction financed by externally restricted tax-exempt debt. For fiscal year ended June 30, 2011, the total interest expense and interest revenue were \$11,273 and \$618, respectively, and the net amount of \$10,655 was included as part of the cost of capital assets. For capital acquisitions financed by existing resources, the total interest expense incurred and the amount included as part of the cost of capital assets under construction for the fiscal years ended June 30, 2012 and 2011 were \$1,332 and \$1,490, respectively.

Premiums/Discounts, Deferred Refunding Amounts and Issuance Costs

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

(to the nearest thousand)

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 in safe deposit boxes.

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.

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 \$893,599. 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.

(to the nearest thousand)

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

Components of Net Assets

Net Assets Invested in Capital Assets, Net of Related Debt - 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 Assets. Capital assets cannot readily be sold and converted to cash.

Restricted Net Assets - 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, 2012 and 2011, the Airport reported restricted net assets of \$58,149 and \$50,899, respectively, for debt service, Passenger Facility Charges and replacements and renewals, of which \$47,853 and \$41,646 was restricted by enabling legislation, respectively.

Unrestricted Net Assets - This category consist of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

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.

Reclassifications

Certain amounts presented in the prior year have been reclassified to be consistent with the current year's presentation.

Note 2 – Cash and Investments

The Airport's investment policy guidelines allow for the same types of investments as the Board approved Pool policy. All Airport cash and investments are accounted for separately from other County funds and other investors in the Pool. Investments maintained by trustees are governed by the related bond indentures.

(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Total Airport cash and investments at fair value as of June 30, 2012 and June 30, 2011 were as follows:

Cash and Pooled Cash and Investments:	2012		 2011
Cash on hand	\$	2,348	\$ 5,489
Pooled cash and investments		148,918	 194,218
Total Cash and Pooled Cash and Investments		151,266	199,707
Investments:		<u> </u>	
With Treasurer		49,739	49,582
With Trustee		33,958	 33,086
Total Investments		83,697	82,668
Total Cash and Investments	\$	234,963	\$ 282,375

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 \$49,739 and \$49,582 at June 30, 2012 and June 30, 2011 respectively, of which \$33,387 and \$36,297, 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.

(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Investments with Trustee

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

Investments

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

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

^{*} Portfolio weighted average maturity

(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Investments (continued)

As of June 30, 2011, the Airport had the following investments:

			Weighted Average
	Fa	air Value	Maturity (Years)
With Treasurer:			
U.S. Government Agencies	\$	30,772	0.13
Bankers' Acceptances		1,227	0.14
Commercial Paper		5,812	0.13
Negotiable Certificates of Deposit		6,352	0.06
Medium Term Notes		4,060	0.57
Money Market Mutual Funds		1,359	
Total investments with Treasurer	\$	49,582	0.15 *
With Trustee:			
U.S. Treasuries	\$	13,779	0.73
Guaranteed Investment Contracts		8,540	2.00
Money Market Mutual Funds		64	
Money Market Deposit Accounts		10,524	
Cash		179	
Total investments with Trustee	\$	33,086	0.82 *
* Portfolio weighted average maturity			

Interest Rate Risk

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. The County Treasurer manages exposure to declines in fair value by limiting the weighted average maturity (WAM) in accordance with the IPS. At June 30, 2012 and 2011, the WAM for the Pool approximated 359 and 342 days, respectively, and for Investments with Treasurer approximated 57 and 58 days, respectively. Investments with Trustee are not limited in maturity as a portion are in guaranteed investment contracts.

Custodial Credit Risk

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

(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Credit Risk

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

Concentration of Credit Risk

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

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

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

(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Concentration of Credit Risk (continued)

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

(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Concentration of Credit Risk (continued)

At June 30, 2011, 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	AAA	Aaa	AAA	5.39%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	11.99%
Federal Farm Credit Bank	AAA	Aaa	AAA	6.76%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	0.65%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	24.63%
Federal Home Loan Mortgage Corporation Discount Notes	AAA	Aaa	AAA	3.09%
Federal Home Loan Mortgage Corporation Bonds	AAA	Aaa	AAA	16.90%
Commercial Paper	A-1	P-1	F1	3.37%
Negotiable Certificates of Deposit				
Certificate of Deposit	A-1	P-1	F1	1.28%
Certificate of Deposit	AAA	Aaa	AA	3.23%
Certificate of Deposit	AA	Aa	AA	2.09%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	0.32%
Corporate Notes	A	Aa	AA	0.32%
Corporate Notes	AA	Aa	NR	2.02%
Corporate Notes	AA	Aa	A	2.02%
Corporate Notes	AA	A	AA	0.17%
Corporate Notes	AA	Aa	AA	1.46%
Corporate Notes	AAA	Aaa	AA	0.48%
Corporate Notes	AAA	Aaa	AAA	2.97%
Municipal Debt				
Municipal Debt	NR	NR	A-1	4.75%
Municipal Debt	A	Aa	AA	1.80%
U.S. Treasuries	AAA	Aaa	AAA	3.40%
Money Market Mutual Funds	AAA	Aaa	AAA	0.91%
Total Pool				100.00%

(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Concentration of Credit Risk (continued)

	S&P	Moody's	Fitch	% of Total
With Treasurer:		<u> </u>		
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	5.64%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	6.68%
Federal Farm Credit Bank	AAA	Aaa	AAA	20.25%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	16.57%
Federal Home Loan Mortgage Corporation Bonds	AAA	Aaa	AAA	12.91%
Bankers' Acceptances				
Bankers' Acceptances	A-1	P-1	F1	2.19%
Bankers' Acceptances	AA	Aa	AA	0.28%
Commercial Paper	A-1	P-1	F1	11.73%
Negotiable Certificates of Deposit				
Certificate of Deposit	AAA	Aaa	AA	1.21%
Certificate of Deposit	AA	Aaa	AA	4.04%
Certificate of Deposit	AA	Aa	AA	2.52%
Certificate of Deposit	AA	Aa	NR	2.02%
Certificate of Deposit	AAA	Aaa	NR	3.03%
Medium Term Notes				
Corporate Notes	AA	Aa	A	4.06%
Corporate Notes	AA	Aa	NR	2.09%
Corporate Notes	AAA	Aaa	AAA	2.04%
Money Market Mutual Funds	AAA	Aaa	AAA	2.74%
Total investments with Treasurer				100.00%
Investments With Trustee:				
U.S. Treasuries	AAA	Aaa	AAA	41.65%
Guaranteed Investment Contracts	NR	NR	NR	25.81%
Money Market Mutual Funds	AAA	Aaa	NR	0.19%
Money Market Deposit Accounts	NR	NR	NR	31.81%
Cash	NR	NR	NR	0.54%
Total investments with Trustee	1111	1111	1111	100.00%
Tom Historia wall House				

(to the nearest thousand)

Note 3 – Defined Benefit Pension Plan

<u>Plan:</u> 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 so-called "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, California 92701, or by calling (714) 558-6200.

<u>Funding Policy</u>: 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 fiscal years ended June 30, 2012 and 2011, the employer's contribution rate as a percentage of covered payroll for General members was 27.11% and 24.79%, respectively.

(to the nearest thousand)

Note 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.

The Airport's total payroll was \$13,278 and \$12,904 and the payroll for employees covered by OCERS was \$13,270 and \$12,904 for the years ended June 30, 2012 and 2011, respectively. As an enterprise fund of the County of Orange, the Airport's annual required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

For Year Ending June 30,	Annual F	Required Contribution	Percentage Contributed
2010	\$	2,541	100%
2011		2,872	100%
2012		2,897	100%

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

Note 4 – Postemployment Health Care Benefits

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

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

(to the nearest thousand)

Note 4 – Postemployment Health Care Benefits (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.

<u>Funding Policy</u>: As an enterprise fund of the County of Orange, the Airport was required to contribute 2.6% of its payroll for the year ended June 30, 2012. The Airport's required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

For Year Ending June 30,	 Required Contribution	Percentage Contributed
2010	\$ 305	100%
2011	322	100%
2012	327	100%

For additional details on the Retiree Medical Plan, actuarial assumptions, funded status of the plan and required supplemental information refer to the County's Comprehensive Annual Financial Report (CAFR). The CAFR is available by accessing the Auditor-Controller's website at http://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. Substantially all the excess of revenues over current expenses of the Airport is pledged for the repayment of these bonds. Interest is payable semi-annually on July 1 and January 1. The bond indenture agreement requires the Airport to deposit monthly with the trustee 1/12th of the principal amount of bonds maturing on the next July 1 and 1/6th of the interest payable on the next ensuing interest payment date.

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

(to the nearest thousand)

Note 5 – Long-Term Obligations (continued)

Airport Revenue Refunding Bonds, Series 2003

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

On May 29 2003, the Airport issued the Airport Revenue Refunding Bonds, Series 2003 (2003 Bonds) in the amount of \$48,680 with interest rates ranging from 2.50% to 5.00% to refund \$65,250 of outstanding 1993 Revenue Bonds. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,828. This difference, reported in the accompanying financial statements as a deferred amount on refunding of 2003 Revenue Bonds, is being charged to operations through the year 2018 using the effective interest method. The outstanding carrying principal amount, including premium, and interest for 2003 Bonds as of June 30, 2012 was \$27,756 and \$4,939, respectively.

The 2003 Bonds are secured by a pledge of (1) operating revenues, net of specified expenses, (2) interest earnings, and (3) other miscellaneous revenue. The 2003 Bonds are payable through July 2018. 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 fiscal year ended June 30, 2012, the principal and interest paid and total net revenues were \$4,576 and \$35,580 respectively.

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of \$233,115, with an original issue net premium of \$288. 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, 2012, the outstanding principal amount, including net premium, of the 2009A and 2009B Bonds were \$65,593 and \$157,469, respectively, and the outstanding interest were \$55,219 and \$98,029, respectively.

(to the nearest thousand)

Note 5 – Long-Term Obligations (continued)

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 fiscal year ended June 30, 2012, the principal and interest paid and total net revenues were \$15,867 and \$46,775, respectively. The total net revenues include \$11,195 of available PFC revenue.

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

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

(to the nearest thousand)

Note 5 – Long-Term Obligations (continued)

Revenue bonds outstanding and related activity for the year ended June 30, 2011, were as follows:

		Balance at					Balance at			Due in
	J	uly 1, 2010	Α	Additions	D	eductions	Jur	ne 30, 2011		1 year
Airport Revenue Refunding				_				_		_
Bonds Series 2003	\$	33,190	\$		\$	(3,015)	\$	30,175	\$	3,165
Bond Premium		1,284				(291)		993		247
Deferred Amount on										
Refunding		(3,303)				748		(2,555)		(637)
Airport Revenue Bonds										
Series 2009A		67,305				(320)		66,985		340
Bond Premium/(Discount)		(998)				(29)		(1,027)		25
Airport Revenue Bonds										
Series 2009B		165,810				(4,125)		161,685		4,345
Bond Premium		810				(384)		426		297
Total	\$	264,098	\$		\$	(7,416)	\$	256,682	\$	7,782

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

	2003]	Bonds	2009A	Bonds	2009B		
Year Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	\$ 3,325	\$ 1,249	\$ 1,410	\$ 3,258	\$ 4,515	\$ 7,743	\$ 21,500
2014	3,495	1,078	1,450	3,215	5,340	7,595	22,173
2015	3,665	909	1,495	3,171	5,500	7,432	22,172
2016	3,835	730	1,540	3,121	5,665	7,218	22,109
2017	4,025	534	1,595	3,062	5,935	6,937	22,088
2018-2022	8,665	439	9,100	14,116	34,335	29,897	96,552
2023-2027			11,665	11,475	44,015	19,783	86,938
2028-2032			13,360	8,193	35,425	7,702	64,680
2033-2037			14,430	4,754	9,575	3,156	31,915
2038-2040			10,600	854	7,035	566	19,055
Total	\$27,010	\$ 4,939	\$66,645	\$55,219	\$157,340	\$ 98,029	\$409,182

(to the nearest thousand)

Note 5 – Long-Term Obligations (continued)

Other long-term liability activity for the years ended June 30, 2012 and 2011, respectively, were as follows:

	Ba	lance at					Balance at		Due in	
	July	July 1, 2011		Additions		Deductions		June 30, 2012		1 year
Other Long-Term Liabilities:										
Compensated Employee Absences	\$	2,402	\$	1,689	\$	(1,677)	\$	2,414	\$	1,131
Arbitrage Rebate Payable		107		42				149		
Pollution Remediation Obligation		1,374				(166)		1,208		98
Total Other Long-Term Liabilities	\$	3,883	\$	1,731	\$	(1,843)	\$	3,771	\$	1,229
	Balance at									
	Ba	lance at					Ba	lance at		Due in
		lance at 1, 2010	Ac	dditions	De	ductions		lance at 30, 2011		Due in 1 year
Other Long-Term Liabilities:			Ac	dditions	De	ductions				
Other Long-Term Liabilities: Compensated Employee Absences			**Ac	dditions 1,549	De \$	ductions (1,384)				
C	July	1, 2010					June	30, 2011		1 year
Compensated Employee Absences	July	2,237		1,549			June	2,402		1 year

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, 2012 was the following:

		Accumulated							
	Cos	t of leased	dep	reciation of	Total c	arrying value of			
	p	property	lease	ed property	leased property				
Structures and Improvements	\$	62,024	\$	(11,503)	\$	50,521			
Land		2,430				2,430			
Balance at June 30, 2012	\$	64,454	\$	(11,503)	\$	52,951			

The cost and carrying value of the Airport's property under operating leases as of June 30, 2011 was the following:

		Accumulated							
	Cos	st of leased	dep	reciation of	Total c	arrying value of			
	p	property		ed property	leased property				
Structures and Improvements	\$	24,539	\$	(11,710)	\$	12,829			
Land		2,430				2,430			
Balance at June 30, 2011	\$	26,969	\$	(11,710)	\$	15,259			

(to the nearest thousand)

Note 6 – Property Leased to Others (continued)

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2012 are as follows:

Year Ending June 30,	Futur	e Minimum Rent
2013	\$	29,681
2014		29,616
2015		28,413
2016		18,114
2017		8,144
2018-2022		35,090
2023-2027		1,444
Total	\$	150,502

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 \$22,688 and \$26,725 for the years ended June 30, 2012 and 2011, respectively.

Note 7 – Commitments under Operating Leases

Lease expense was \$399 and \$447 for the years ended June 30, 2012 and 2011, respectively. As of June 30, 2012, there was \$478 in outstanding lease commitments.

Note 8 – Related Party Transactions

The Airport reimburses the County for the cost of providing security, insurance and other administrative services to the Airport. Amounts charged by other County departments are reported as operating expenses during the year incurred, and totaled \$21,299 and \$20,179 for the years ended June 30, 2012 and 2011, respectively.

(to the nearest thousand)

Note 9 – Contingencies and Commitments

Commitments

At June 30, 2012, the Airport was committed under contracts for the following construction projects:

Seismic Remediation Elevated Roadways	2,927
Common Use Passenger Processing System (CUPPS)	1,445
Improvements of Tenant Airline Offices	1,859
Other	4,371
	\$ 10,602

Note 10 - Changes in Capital Assets

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

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

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

(to the nearest thousand)

Note 10 – Changes in Capital Assets (continued)

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance at							Balance at
	Jun	ne 30, 2010	Additions	Deductions	Adju	stments	Jun	e 30, 2011
Capital assets, not depreciated:								
Land	\$	15,678	\$ 	\$ 	\$		\$	15,678
Construction in progress		188,723	163,900	(41,231)				311,392
Total capital assets, not depreciated		204,401	163,900	(41,231)				327,070
Capital assets, depreciated:								
Structures and Improvements		306,078	37,787		((1,137)		342,728
Infrastructure		210,778	3,692			1,137		215,607
Equipment		11,328	838	(617)				11,549
Total capital assets, depreciated		528,184	42,317	(617)				569,884
Less accumulated depreciation:								
Structures and Improvements		(160,527)	(9,348)			(212)		(170,087)
Infrastructure		(146,517)	(5,748)					(152,265)
Equipment		(8,615)	(734)	454				(8,895)
Total accumulated depreciation		(315,659)	(15,830)	454		(212)		(331,247)
Total capital assets depreciated, net		212,525	26,487	(163)		(212)		238,637
Total capital assets, net	\$	416,926	\$ 190,387	\$ (41,394)	\$	(212)	\$	565,707

Note: Total depreciation expense for the year ended June 30, 2011 was \$15,830.

Note 11 – Interfund Receivables, Payables, and Transfers

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

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

Receivable Fund	Payable Fund	Amount	
Airport	General Fund	\$ 565	;
Total Interfund Receivables		\$ 565	<u>; </u>
General Fund	Airport	\$ 2,017	,
Internal Service Funds	Airport	508	;
Other Government Funds	Airport	2	
Total Interfund Payables		\$ 2,527	_

(to the nearest thousand)

Note 11 – Interfund Receivables, Payables, and Transfers (continued)

The composition of interfund balances as of June 30, 2011, was as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Airport	\$ 1,717
Internal Service Funds	Airport	410
Other Government Funds	Airport	2
Total Interfund Payables		\$ 2,129

Note 12 – New Accounting Pronouncements

The following summarizes recent GASB pronouncements implemented or effective in the years ended June 30, 2012 and 2011:

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53.* This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The Airport implemented this statement in the year ended June 30, 2012. Currently, the County Treasurer's Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County's investment pools.

In June 2010, GASB issued statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves the existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The Airport implemented this statement in the year ended June 30, 2011.

The following summarizes recent GASB pronouncements:

In November 2010, GASB issued Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. This statement addresses issues related to service concession arrangements (SCA), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which 1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and 2) the operator collects and is compensated by fees from third parties. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2011, which requires the Airport to implement this statement in the year ended June 30, 2013.

(to the nearest thousand)

Note 12 – New Accounting Pronouncements (continued)

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-* an amendment of GASB Statements No. 14 and No. 34. This statement modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2012, which requires the Airport to implement this statement in the year ended June 30, 2013.

In December 2010, GASB issued Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. The objective of this statement is to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. It will eliminate the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of applicable guidance in financial statements of state and local governments. The requirements of this statement are effective for periods beginning after December 15, 2011, which requires the Airport to implement this statement in the year ended June 30, 2013.

In June 2011, GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. In addition, this statement amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming the measure as net position, rather than net assets. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011, which requires the Airport to implement this statement in the year ended June 30, 2013.

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

(to the nearest thousand)

Note 12 – 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 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012, which requires the Airport to implement this statement in the year ended June 30, 2014.

In June 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25 and Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27. Both Statements result 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. The primary objective of these statements is to improve financial reporting by state and local governmental pension plans.

Statement No. 67 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 provisions of this statement are effective for plan financial statements for periods beginning after June 15, 2013.

(to the nearest thousand)

Note 12 – New Accounting Pronouncements (continued)

Statement No. 68 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 ended June 30, 2015.

Note 13 - Pollution Remediation Obligation

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

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

The Airport started implementing the new remediation method in the fiscal year ending 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, 2012, the Airport has a liability of \$1,208 based on management's assessment and the results of the consultant's evaluation.

In 1995, the Airport entered into Memorandum of Understanding (MOU) with one of its fixed-base operators (FBO) lessees to address the remediation of the Old Fuel Farm. The FBO was identified as the operator of the site and the other responsible party. The lessee agreed to be obligated to pay 50% of the remediation costs associated with the Old Fuel Farm site. The expected recoveries for the Old Fuel Farm site are realizable and a receivable in the amount of \$394 was recorded. Pollution remediation recoveries are reported in the Statement of Net Assets as part of accounts receivable.

(to the nearest thousand)

Note 13 – Pollution Remediation Obligation (continued)

The estimated	pollution	remediation	obligation	as of June 3	30, 2012 is:

Old Fuel Farm Site	\$ 785
Former Fire Station #33 Site	692
Less: Year-ending June 30, 2011 Activity	(103)
Less: Year-ending June 30, 2012 Activity	(166)
Net Pollution Remediation Obligation	\$ 1,208

The estimated pollution remediation obligation as of June 30, 2011 was:

Old Fuel Farm Site	\$ 785
Former Fire Station #33 Site	692
Less: Year-ending June 30, 2011 Activity	(103)
Net Pollution Remediation Obligation	\$ 1,374



Certified Public Accountants

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 the financial statements of John Wayne Airport (the Airport), an enterprise fund of the County of Orange, California (the County), as of and for the year ended June 30, 2012, and have issued our report thereon dated November 28, 2012. Our report included an explanatory paragraph stating that the financial statements present only the Airport and do not purport to, and do not, present fairly the financial position of the County of Orange. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Airport is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Airport's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Airport's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Supervisors, County's Audit Oversight Committee, Airport management, others within the entity, grantor agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinch, Txix, Dz; Co, Ul Laguna Hills, California November 28, 2012