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

Financial Statements
and Independent Auditor's Reports

For the Year Ended June 30, 2017

MGO Certified Public Accountants

JOHN WAYNE AIRPORT
Financial Statements

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Independent Auditor's Report

To the Board of Supervisors
County of Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of John Wayne Airport (Airport), an enterprise fund of the County of Orange, California (County) as of and for the year ended June 30, 2017, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the John Wayne Airport, as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
4675 MacArthur Court, Suite 600
Newport Beach, CA 92660

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Airport, an enterprise fund of the County, and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2017, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2017, on our consideration of the County's internal control over Airport's financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters for the year ended June 30, 2017. The purpose of that report is to solely 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 effectiveness of the County's internal control over Airport's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over Airport's internal control over financial reporting and compliance.

Macias Gini É O'Connell LLP

Newport Beach, California
December 8, 2017

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017
(To the Nearest Thousand)

As management of John Wayne Airport, Orange County (Airport), we offer readers of the Airport's financial statements this narrative overview and analysis of the financial activities of the Airport for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the information furnished in the Airport's financial statements.

Financial Highlights

- The Airport's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $680,918 (net position) at June 30, 2017. Of this amount, $217,656 (unrestricted net position) may be used to meet the ongoing obligations of the Airport, $39,956 (restricted net position) was externally restricted for specific purposes, and $423,306 was the net investment in capital assets.
- Total net position increased by $26,828 or 4.1% for the year ended June 30, 2017. This increase consists of operating income of $11,236, nonoperating revenues of $15,322, and capital grant contributions of $270.
- Capital assets increased by $30,058 or 5.2% from June 30, 2016, primarily due to the additions to capital assets for the Terminal Improvements Project.
- Noncurrent liability decreased by $38,220 or 16.5% from June 30, 2016, primarily due to the early partial redemption of the Airport's 2009B Bonds in the amount of $27,210 on July 1, 2017, which was classified as a current liability.

Overview of the Financial Statements

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

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

- Financial statements: Statement of Net Position; Statement of Revenues, Expenses, and Change in Net Position; Statement of Cash Flows.
- Notes to Financial Statements.

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

- Statement of Net Position is the statement of financial position for the Airport. Airport assets and liabilities, both financial and capital, short-term and long-term, and deferred outflows and inflows, are presented in this statement. Current assets and liabilities are reasonably expected to be realized or liquidated within one year.

- Statement of Revenues, Expenses, and Change in Net Position is the statement of operations for the Airport. All Airport revenues and expenses during the year, regardless when cash is received or paid, are presented in this statement.
- Statement of Cash Flows is the financial statement classifying the Airport's cash and cash equivalent receipts (inflows) and payments (outflows) resulting from operating, noncapital financing, capital and related financing, or investing activities.
- Notes to Financial Statements provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements.

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

Financial Analysis

Net position may serve as a useful indicator of the Airport's financial position. At June 30, 2017, the Airport's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $680,918.

Net Position:

	2017	2016	2017 vs 2016 $ Change	2017 vs 2016 % Change
ASSETS				
Current and other assets	$ 358,650	$ 357,983	$ 667	0.2 %
Capital assets	612,745	582,687	30,058	5.2 %
TOTAL ASSETS	971,395	940,670	30,725	3.3 %
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,713	10,126	(1,413)	(14.0) %
LIABILITIES				
Current liabilties	100,212	61,419	38,793	63.2 %
Noncurrent liabilities	192,780	231,000	(38,220)	(16.5) %
TOTAL LIABILITIES	292,992	292,419	573	0.2 %
TOTAL DEFERRED INFLOWS OF RESOURCES	6,198	4,287	1,911	44.6 %
NET POSITION				
Net investment in capital assets	423,306	397,058	26,248	6.6 %
Restricted net position	39,956	24,204	15,752	65.1 %
Unrestricted net position	217,656	232,828	(15,172)	(6.5) %
TOTAL NET POSITION	$ 680,918	$ 654,090	$ 26,828	4.1 %

At June 30, 2017, the largest component of the Airport's net position (62.2%) was its net investment in capital assets (e.g., land, structures and improvements, equipment, infrastructure, construction in progress, intangible assets, and intangible assets in progress), less any related outstanding debt used to acquire these assets. The Airport uses these capital assets to provide services to its passengers and visitors. Accordingly, these assets are not available for future spending. Although the Airport's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay the debt must be provided from operating activities or other sources, since the capital assets cannot be liquidated to fulfill these liabilities.

At June 30, 2017, an additional component of the Airport's net position (5.9%) represents resources that are subject to external usage restrictions such as reserve for debt service, Passenger Facility Charges (PFC), and replacements and renewals for capital projects. The remaining net position balance of $217,656 (31.9%) is unrestricted and may be used to meet the Airport's ongoing obligations.

Comparison between the years ended June 30, 2017 and 2016:

The Airport's total assets increased by $30,725 or 3.3%. Current and other assets increased slightly by $667 or 0.2%. Capital assets increased by $30,058 or 5.2% primarily due to the additions to capital assets for the Terminal Improvements Project, partially offset by the current year depreciation and amortization. Refer to Note 10 to the financial statements, Changes in Capital Assets, for additional information.

The Airport's total liabilities increased by $573 or 0.2%. Current liabilities increased by $38,793 or 63.2% primarily due to an increase in accounts payable related to the Terminal Improvements Project and an increase in bonds payable for the 2009B Bonds early partial redemption. Noncurrent liabilities decreased by $38,220 or 16.5% mainly due to a decrease in bonds payable for the 2009B Bonds early partial redemption and retirement of long-term debt obligations. Refer to Note 5, Long-Term Obligations, for additional information.

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2017
(To the Nearest Thousand)

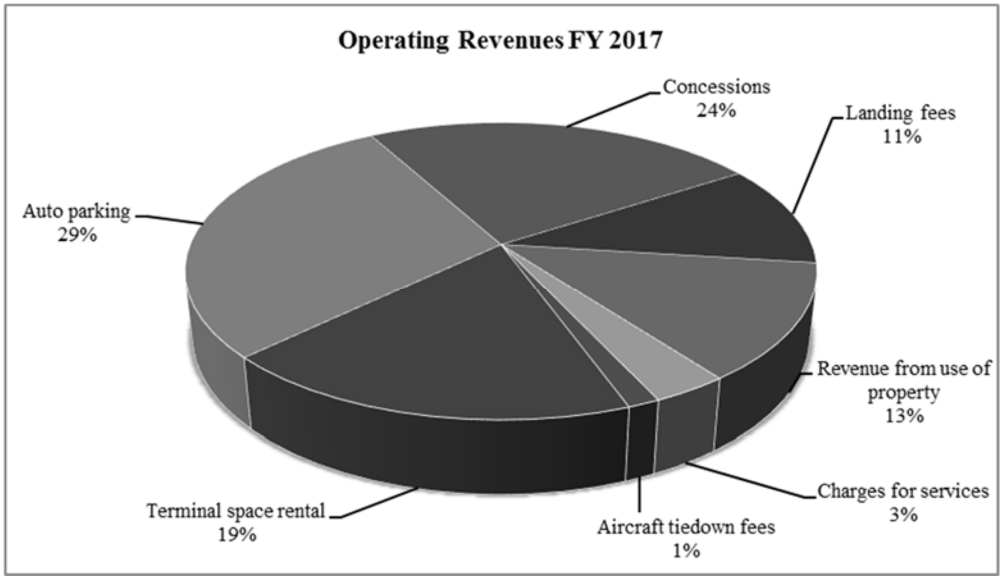
During the year ended June 30, 2017, the Airport's change in net position increased by $26,828 or 4.1%.

Revenues, Expenses, and Change in Net Position:

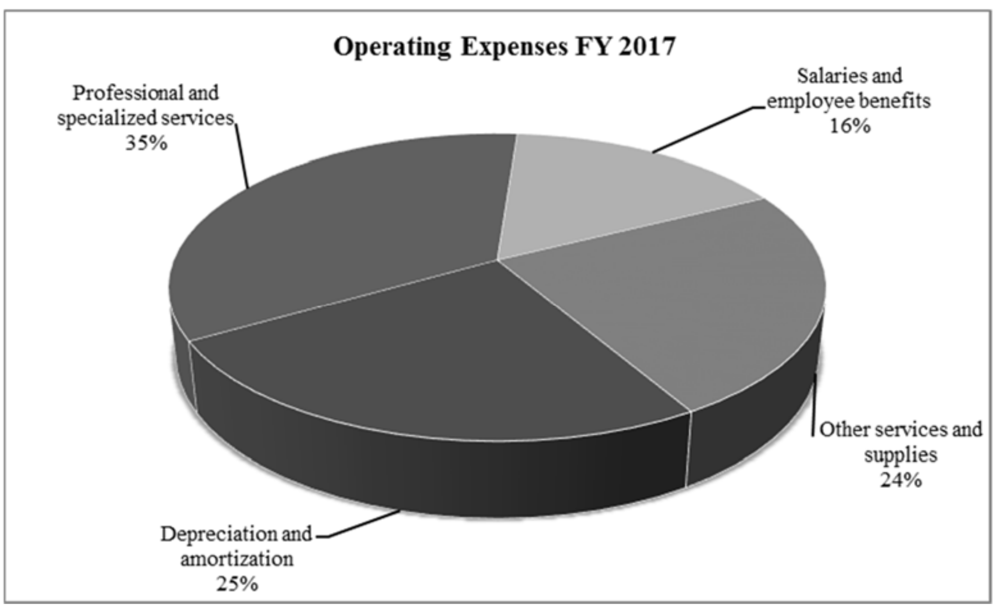
	2017	2016	2017 vs 2016 $ Change	2017 vs 2016 % Change
OPERATING REVENUES				
Terminal space rental	$ 23,977	$ 22,428	$ 1,549	6.9 %
Auto parking	37,880	40,869	(2,989)	(7.3) %
Concessions	31,138	30,088	1,050	3.5 %
Landing fees	14,429	15,058	(629)	(4.2) %
Revenue from use of property	16,581	15,240	1,341	8.8 %
Revenue from services	4,331	3,868	463	12.0 %
Aircraft tiedown fees	1,825	1,635	190	11.6 %
Total operating revenues	130,161	129,186	975	0.8 %
OPERATING EXPENSES				
Professional and specialized services	40,963	38,377	2,586	6.7 %
Salaries and employee benefits	19,497	19,711	(214)	(1.1) %
Other services and supplies	28,479	24,896	3,583	14.4 %
Taxes and other fees	166	164	2	1.2 %
Depreciation and amortization	29,820	28,934	886	3.1 %
Total operating expenses	118,925	112,082	6,843	6.1 %
Operating income	11,236	17,104	(5,868)	(34.3) %
NONOPERATING REVENUES (EXPENSES)				
Interest income	1,436	2,189	(753)	(34.4) %
Interest expense	(7,104)	(9,105)	2,001	(22.0) %
Bankruptcy settlement proceeds	768	1,180	(412)	(34.9) %
Fines and penalties	198	186	12	6.5 %
Gain (loss) on disposition of capital assets, net	(23)	1	(24)	(2400.0) %
Other revenue, net	146	221	(75)	(33.9) %
PFC revenue	19,901	20,522	(621)	(3.0) %
Total nonoperating revenues	15,322	15,194	128	0.8 %
INCOME BEFORE CAPITAL GRANT CONTRIBUTIONS	26,558	32,298	(5,740)	(17.8) %
Capital grant contributions	270	2,174	(1,904)	(87.6) %
CHANGE IN NET POSITION	26,828	34,472	(7,644)	(22.2) %
TOTAL NET POSITION, BEGINNING OF YEAR	654,090	619,618	34,472	5.6 %
TOTAL NET POSITION, END OF YEAR	$ 680,918	$ 654,090	$ 26,828	4.1 %

Comparison between the years ended June 30, 2017 and 2016:

The Airport's operating revenues increased by $975 or 0.8% primarily due to an increase in terminal space rental, concessions, and revenue from use of property, partially offset by a decrease in auto parking.



The Airport's operating expenses increased by $6,843 or 6.1% primarily due to an increase in professional and specialized services related to the General Aviation Improvement Program (GAIP) and an increase in other services and supplies related to the Terminal Improvements Project.



For the year ended June 30, 2017, the Airport's nonoperating revenues increased by $128 or 0.8% primarily due to a decrease in interest expense, partially offset by decrease of interest income and PFC revenue. Capital grant contributions decreased by $1,904 or 87.6% due to a decrease in cost reimbursements for federally funded construction projects.

Capital Assets

The Airport's capital assets as of June 30, 2017, amounted to $612,745, net of accumulated depreciation and amortization. The investment in capital assets includes land, construction in progress, intangible assets in progress, structures and improvements, equipment, infrastructure (runways, taxiways and aprons), and intangible assets. The total change in capital assets for the year ended June 30, 2017, was an increase of $30,058 or 5.2%.

Capital Assets (Net of Accumulated Depreciation and Amortization):

	2017	2016	2017 vs 2016 $ Change	2017 vs 2016 % Change
CAPITAL ASSETS				
Land	$ 15,678	$ 15,678	$ --	0.0 %
Construction in progress	76,247	27,318	48,929	179.1 %
Intangible assets in progress	--	1,833	(1,833)	(100.0) %
Structures and improvements	469,183	486,200	(17,017)	(3.5) %
Equipment	2,808	2,848	(40)	(1.4) %
Infrastructure	46,342	48,154	(1,812)	(3.8) %
Intangible assets	2,487	656	1,831	279.1 %
TOTAL CAPITAL ASSETS	$ 612,745	$ 582,687	$ 30,058	5.2 %

Major capital asset projects completed during the year ended June 30, 2017 included the following:

- Completion of Main Street & Employee Parking Lots Resurfacing at an approximate cost of $3,262.
- Completion of Common Use Passenger Processing System (CUPPS) Upgrade at an approximate cost of $6,746.

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

At June 30, 2017, the Airport was committed under contracts for construction projects in the amount of $51,769. Refer to Note 9 to the financial statements, Commitments, for more information.

Long-Term Debt Obligations

At June 30, 2017, the Airport had total bond obligations of $187,318. The debt is secured by a pledge of operating revenues, net of specified operating expenses, interest earnings, other miscellaneous revenues, and available PFC revenue.

The following summarizes the Airport's outstanding bonds at June 30, 2017:

	2017	2016	2017 vs 2016 $ Change	2017 vs 2016 % Change
LONG-TERM DEBT OBLIGATIONS				
Airport Revenue Bonds, Series 2009A	$ 59,155	$ 60,750	$ (1,595)	(2.6) %
Airport Revenue Bonds, Series 2009B	130,385	136,320	(5,935)	(4.4) %
Add: Premium/(Discount) on Bonds Payable	(2,222)	(1,944)	(278)	14.3 %
TOTAL LONG-TERM DEBT OBLIGATIONS	$ 187,318	$ 195,126	$ (7,808)	(4.0) %

During the year ended June 30, 2017, the decrease in the outstanding bonds was due to principal payments and amortization of bond premiums/discounts.

There were no changes to the Airport's underlying debt ratings as compared to the previous year. The Airport maintains the following long-term underlying debt ratings:

	Standard & Poor's	Moody's	Fitch
LONG-TERM DEBT RATINGS			
June 30, 2017			
Airport Revenue Bonds, Series 2009A and 2009B	AA-	Aa3	AA-
June 30, 2016			
Airport Revenue Bonds, Series 2009A and 2009B	AA-	Aa3	AA-

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

Other Potentially Significant Matters

Grant Awards:

On August 10, 2017, the Airport was awarded an Airport Improvement Program grant from the Federal Aviation Administration (FAA) in the maximum amount of $3,757 for the Taxiway B Rehabilitation Project. This grant is a reimbursement type grant.

Airport Capital Improvement Program and Financial Planning:

The Airport began its multi-year $118 million Terminal Improvements Project in January 2016. The project covers numerous safety, code compliance, comfort, convenience and aesthetic improvements to the Thomas F. Riley Terminal. These improvements not only extend the useful lives of the terminal components, but also enhance the existing facilities' aesthetics and infrastructure, allowing guests of the Airport and visitors to Orange County to experience a uniform level of quality throughout the Riley Terminal complex. Included as part of the Terminal enhancements are the new Nursing Mother's Lounge and a new Animal Relief Area located post-security near Gate 12; both were completed in the year ended June 30, 2017. The Terminal Improvements Project is progressing as scheduled and is expected to be completed by the early part of 2019.

As is the case with any substantial capital improvement program, the Airport anticipates encountering many challenges in balancing the current level of operation and high standards for customer service with the substantial construction activity. In spite of the foregoing challenges, J.D. Power announced that the Airport was selected as the recipient of the Best Large Airport Award in the 2017 North America Airport Satisfaction Study measured by traveler satisfaction. The 2017 Airport Satisfaction Study measures overall traveler satisfaction by examining six factors (in order of importance): terminal facilities; airport accessibility; security check; baggage claim; check-in/baggage check; food, beverage and retail, in which the Airport significantly improved in every category.

The credit card industry mandated the implementation of a new global credit card standard with chip technology, known as EMV (Europay, MasterCard and Visa) or Chip and PIN in October 2015. The liability was shifted from the credit card issuer to the merchants for any fraud resulting from the merchants' inability to process EMV transactions. In order to allow airlines to comply with the EMV credit card standard, the Airport completed the upgrading of the CUPPS in the year ended June 30, 2017 by replacing all CUPPS equipment and kiosks to accept the new chip-enabled credit card transactions.

The construction of the Paularino Gate Improvements Project began in August 2017 and is expected to run through mid-2018. The work includes utility work, pavement replacement on the south side of Paularino Avenue between Airway Avenue and the perimeter road, and the replacement of the Paularino entry gate. The Project will affect street parking, pedestrian access, entry and exit traffic along Paularino Avenue to the gate, the visitor front office entry and parking at the Airport's Eddie Martin Administration Building.

Other significant capital projects slated for the next three years include the progression of the multi-year Terminal Improvements Project, Taxiway B Rehabilitation, Airport Operations Center, Airport Power Generation and Distribution Upgrades, Parking System EMV Implementation, Airfield Lighting and Signage Improvements Project and GAIP.

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

JOHN WAYNE AIRPORT
Statement of Net Position
June 30, 2017
(To the Nearest Thousand)

ASSETS		
Current assets:		
Cash (Note 2)	$	7,362
Pooled cash and investments with Treasurer (Note 2)		204,655
Cash Equivalents/Specific investments with Treasurer (Note 2)		11,195
Imprest cash (Note 2)		14
Accounts receivable		4,170
Pollution remediation obligation recoveries (Note 12)		256
Interest receivable		576
Due from County of Orange (Note 8)		52
Due from other governmental agencies		649
Prepaid expenses		2,149
Restricted cash and investments with trustee (Note 2)		41,091
Restricted pooled cash and investments held for others (Note 2)		613
Restricted pooled cash and investments with Treasurer (Note 2)		1,000
Restricted Passenger Facility Charges (PFC) receivable		2,775
Restricted Deposits in lieu of cash		29,969
Total current assets		306,526
Noncurrent assets:		
Specific investments with Treasurer (Note 2)		39,300
Restricted Investments with trustee (Note 2)		12,824
Capital assets (Note 10):		
Land		15,678
Construction in progress		76,247
Structures and improvements		764,854
Equipment		12,812
Infrastructure - runways, taxiways and aprons		229,348
Intangible assets		3,015
Less: accumulated depreciation/amortization		(489,209)
Total capital assets, net		612,745
Total noncurrent assets		664,869
TOTAL ASSETS		971,395
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension (Note 3)		8,713
TOTAL DEFERRED OUTFLOWS OF RESOURCES		8,713

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Net Position (Continued)
June 30, 2017
(To the Nearest Thousand)

LIABILITIES		
Current liabilities:		
Accounts payable	$	21,242
Retainage payable		52
Salaries and employee benefits payable		433
Interest payable		4,910
Unearned revenue		3,984
Due to County of Orange (Note 8)		2,605
Due to other governmental agencies		154
Compensated employee absences (Note 5)		1,057
Intangible asset obligations payable		103
Bonds payable (Note 5)		35,090
Deposits from others		30,582
Total current liabilities		100,212
Noncurrent liabilities:		
Pollution remediation obligation (Notes 5 and 12)		994
Compensated employee absences (Note 5)		951
Intangible asset obligations payable		37
Bonds payable, net (Note 5)		152,228
Net pension liability (Note 3)		38,570
Total noncurrent liabilities		192,780
TOTAL LIABILITIES		292,992
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension (Note 3)		6,198
TOTAL DEFERRED INFLOWS OF RESOURCES		6,198
NET POSITION		
Net investment in capital assets		423,306
Restricted for debt service		36,181
Restricted for PFC (Note 1)		2,775
Restricted for capital projects - replacements and renewals		1,000
Unrestricted		217,656
TOTAL NET POSITION	$	680,918

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statement of Revenues, Expenses, and Change in Net Position

For the Year Ended June 30, 2017

(To the Nearest Thousand)

OPERATING REVENUES		
Terminal space rental	$	23,977
Auto parking		37,880
Concessions		31,138
Landing fees		14,429
Revenue from use of property		16,581
Revenue from services		4,331
Aircraft tiedown fees		1,825
Total operating revenues		130,161
OPERATING EXPENSES		
Professional and specialized services		40,963
Salaries and employee benefits		19,497
Other services and supplies		28,479
Taxes and other fees		166
Depreciation and amortization (Note 10)		29,820
Total operating expenses		118,925
Operating income		11,236
NONOPERATING REVENUES (EXPENSES)		
Interest income		1,436
Interest expense (Note 1)		(7,104)
Bankruptcy settlement proceeds		768
Fines and penalties		198
Gain (loss) on disposition of capital assets, net		(23)
Other revenue, net		146
PFC revenue (Note 1)		19,901
Total nonoperating revenues		15,322
INCOME BEFORE CAPITAL GRANT CONTRIBUTIONS		26,558
Capital grant contributions		270
CHANGE IN NET POSITION		26,828
TOTAL NET POSITION, BEGINNING OF YEAR		654,090
TOTAL NET POSITION, END OF YEAR	$	680,918

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Cash Flows
For the Year Ended June 30, 2017
(To the Nearest Thousand)

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	131,375
Payments to suppliers for goods and services		(67,613)
Payments to employees		(19,903)
Payments to County of Orange		(95)
Payments for taxes and other fees		(166)
Other receipts		967
Net cash provided by operating activities		44,565
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental revenues		152
Net cash provided by noncapital financing activities		152
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets		(46,159)
Principal payments on long-term debt		(7,530)
Interest paid on long-term debt		(9,999)
Proceeds from capital grant contributions		1,915
Proceeds from sale of capital assets		9
Receipts from PFC		19,267
Net cash used in capital and related financing activities		(42,497)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of investments, net		(13,851)
Interest received on investments		1,424
Net cash used in investing activities		(12,427)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(10,207)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		276,137
CASH AND CASH EQUIVALENTS - END OF YEAR	$	265,930

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statement of Cash Flows (Continued)
For the Year Ended June 30, 2017
(To the Nearest Thousand)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$	11,236
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization		29,820
Fines and penalties		198
Other revenue		863
(INCREASES) DECREASES IN:		
Accounts receivable		796
Pollution remediation obligation recoveries		5
Due from County of Orange		(52)
Due from other governmental agencies		(81)
Prepaid expenses		(222)
Restricted deposits in lieu of cash		1,460
Deferred outflows of resources related to pension		1,413
INCREASES (DECREASES) IN:		
Accounts payable		1,882
Retainage payable		3
Salaries and employee benefits payable		(614)
Unearned revenue		521
Due to County of Orange		(43)
Due to other governmental agencies		(24)
Compensated employee absences		(34)
Deposits from others		(1,557)
Net pension liability		(2,916)
Deferred inflows of resources related to pension		1,911
Net cash provided by operating activities	$	44,565
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash	$	7,362
Pooled cash and investments with Treasurer		204,655
Specific investments with Treasurer		50,495
Imprest cash		14
Restricted investments with trustee		53,915
Restricted pooled cash and investments held for others		613
Restricted pooled cash and investments with Treasurer		1,000
Total		318,054
Less: Specific investments with original maturities of 90 days or more		(39,300)
Investments held with trustee for debt service reserve requirement		(12,824)
TOTAL CASH AND CASH EQUIVALENTS	$	265,930
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Acquisition of capital assets with accounts payable	$	14,759
Acquisition of capital assets with retainage payable		45
Change in fair value of investments not considered cash or cash equivalents		34
Accrued capital grant contribution receivable		267
Loss on disposition of capital assets		23

See accompanying notes to financial statements.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

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

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

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

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

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

In 2003 and 2014, the four signatories extended the Agreement and approved a series of amendments that allowed for additional facilities and operational capacity, while continuing to provide environmental protections for the local community. These amendments enhanced the operational capacity at the Airport by increasing the number of passengers to 10.3 MAP through 2010, to 10.8 MAP through 2020, to 11.8 MAP through 2025, and to 12.2 MAP or 12.5 MAP through 2030 depending on the actual service level from 2021 to 2025. These amendments maintain the Airport's curfew through 2035, increase the number of passenger loading bridges from 14 to 20, and will eliminate the limit on permitted number of commercial passenger loading bridges beginning in 2021.

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

Description of Reporting Entity (Continued)

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

Basis of Presentation - Fund Accounting

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

Basis of Accounting and Estimates

The Airport prepares its financial statements on the flow of economic resources measurement focus and uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

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

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

Capital Assets

Capital assets including infrastructure assets, purchased or constructed by the Airport are capitalized at cost, while contributed properties are recorded at fair value when received. Assets are capitalized when the original unit cost is equal to or greater than the County's capitalization threshold of $5 for equipment, $150 for structures and improvements, $5 for intangible assets, $150 for infrastructure, and $0 for land. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the related assets, which range from 3 to 20 years for equipment and intangible assets and 10 to 60 years for infrastructure and structures and improvements. No depreciation or amortization is provided on construction in progress or intangible assets in progress until the project is completed and the asset is placed in service.

Capitalization of Interest

Interest incurred during the construction phase is included as part of the capitalized cost of the capital assets constructed. For the year ended June 30, 2017, the total interest expense incurred through bond financing was $9,541, and the capitalized interest was $2,437.

Bonds Payable and Bond Premiums/Discounts

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

Deposits in Lieu of Cash

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

Cash Equivalents

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

Pooled Cash and Investments

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

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

Specific Investments with Treasurer

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

Self Insurance

Liability, property and business interruption insurance is purchased by the County to provide insurance coverage for the Airport for a total insurable value amount of $1,059,788. The related insurance premium is recorded as an Airport expense. The Airport also participates in the County's self-insured programs for general and automobile liability insurance, workers' compensation, group health indemnified insurance plans, group salary continuance plan, group dental plan, and unemployment benefits plan. The Airport records its portion of the related self-insurance premiums charged by the County as an expense. The related liabilities are accrued by the County's self-insurance internal service fund based on estimated future amounts to be paid on known claims and incurred but not reported claims, including loss adjustment expenses.

Compensated Employee Absences

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

Deferred Outflows and Deferred Inflows of Resources

When applicable, the statement of net position reports a separate section for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense or expenditure until that time. Conversely, deferred inflows of resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as a revenue until that time.

Pension

The Airport recognizes a net pension liability to reflect its portion in the County's proportionate share of the excess of the total pension liability over the fiduciary net position of the County's retirement plans.

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

Components of Net Position

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

Restricted - This category represents restrictions imposed on the use of the Airport's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. As of June 30, 2017, the Airport reported restricted net position of $39,956 for debt service, Passenger Facility Charges (PFC) and replacements and renewals for capital projects, of which $2,775 was restricted by the PFC Program Guidelines.

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

Policy Regarding Use of Restricted vs. Unrestricted Resources

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

Passenger Facility Charges

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

The FAA approved the Airport's PFC application to collect $4.50 per enplaned passenger effective July 1, 2006. The total approved PFC revenue to be collected was $321,351 through December 31, 2021. In March 2016, the FAA approved the Airport's PFC Amendment application. The amended total approved PFC revenue to be collected is $311,602 through December 31, 2021.

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

During the year ended June 30, 2017, $19,901 PFC revenue was reported and $11,061 was expended on approved PFC projects.

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

Concentrations

A significant portion of the Airport's revenues are directly or indirectly attributed to the activity of a number of major airlines. The Airport's revenues could be materially and adversely affected should any of these major airlines discontinue operations and should the Airport be unable to replace those airlines with similar activity. The level of operations is determined based upon the relative share of enplaned passengers. The three largest airlines in terms of enplaned passengers accounted for approximately 43%, 16%, and 14% of market share during the year ended June 30, 2017.

Note 2 – Cash and Investments

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

Total Airport cash and investments at fair value as of June 30, 2017 was as follows:

Cash and pooled cash and investments:		
Cash on hand	$	7,376
Pooled cash and investments, restricted		1,613
Pooled cash and investments		204,655
Total cash and pooled cash and investments		213,644
Investments:		
With Treasurer		50,495
With trustee, restricted		53,915
Total investments		104,410
Total cash and investments	$	318,054

Cash

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

Note 2 – Cash and Investments (Continued)

Specific Investments with Treasurer

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

The investment balance was $50,495 at June 30, 2017, of which $11,195, are considered cash equivalents with original maturities of 90 days or less.

Pooled Cash and Investments

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

Deposits and Investments with Trustee

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

Interest Rate Risk

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. In accordance with the IPS, the Treasurer manages exposure to declines in fair value by limiting the weighted average maturity (WAM) to 60 days for any short-term pool and the maximum maturity to 397 days for short-term pool if short-term and long-term pools are used. At June 30, 2017, the WAM for the Pool, specific investments with Treasurer, and investments with trustee approximated 366 days, 80 days, and 69 days, respectively.

Custodial Credit Risk

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

Note 2 – Cash and Investments (Continued)

Credit Risk

This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. The IPS sets forth the minimum acceptable credit ratings for investments from at least two of the following nationally recognized statistical rating organizations: Standard & Poor's (S&P), Moody's, or Fitch. For purchases of short-term debt, the issuer rating must be no less than A-1 (S&P), P-1 (Moody's), or F1 (Fitch). For purchases of long-term debt, the issuer rating must be no less than AA for purchases with remaining maturities longer than 397 days. Municipal debt issued by the County is exempt from the above credit rating requirements.

Concentration of Credit Risk

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

Type of Investment	**Orange County IPS**	**IPS Maximum Final Maturity (Long-Term Fund)**	**IPS Maximum Final Maturity (Short-Term Fund)**
U.S. Treasury Securities	100%	5 Years	397 Days
U.S. Government Agency Securities	100% Total, no more than 50% in one issuer excluding securities with final maturities of 30 days or less	5 Years	397 Days
Municipal Debt	30% Total, no more than 5% in one issuer except 10%-County of Orange	5 Years	397 Days
Medium-Term Notes	30% Total, no more than 5% in one issuer	3 Years	397 Days
Bankers' Acceptances	40% Total, no more than 5% in one issuer	180 Days	180 Days
Commercial Paper	40% Total, no more than 5% in one issuer	270 Days	270 Days
Negotiable Certificates of Deposits	30% Total, no more than 5% in one issuer	3 Years	397 Days
State of California Local Agency Investment Fund	$50 million per pool	N/A	N/A
Repurchase Agreements	20% Total, no more than 10% in one issuer	1 Year	1 Year
Money Market Mutual Funds	20% Total	N/A	N/A
Investment Pools	20% Total, no more than 10% in one pool	N/A	N/A
Supranationals	30% Total, no more than 5% in one issuer	5 Years	397 Days

Note 2 – Cash and Investments (Continued)

Concentration of Credit Risk (Continued)

The Airport's pooled cash and investments are combined with the County's pooled investments, and therefore, do not represent specific identifiable investments and are not discretely rated. For the credit ratings of the Pool investments, 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.

At June 30, 2017, the credit ratings of the specific investments with Treasurer, and investments with trustee, and the related concentration of credit risk by investment type were as follows:

Specific Investments with Treasurer:	Fair Value	Principal	WAM (Years)	Rating (1)	% of Total
U.S. Government Agencies					
Federal National Mortgage Association Discount Notes	$ 1,798	$ 1,800	0.10	A-1	3.56%
Federal National Mortgage Association Bonds	4,373	4,375	0.28	AA	8.66%
Federal Farm Credit Bank Discount Notes	2,970	3,000	0.83	A-1	5.88%
Federal Farm Credit Bank Bonds	2,000	2,000	0.12	AA	3.96%
Federal Home Loan Bank Discount Notes	15,341	15,365	0.16	A-1	30.39%
Federal Home Loan Bank Bonds	3,000	3,000	0.19	AA	5.94%
Federal Home Loan Mortgage Corporation Discount Notes	3,991	4,000	0.22	A-1	7.90%
U.S. Treasuries	12,987	12,999	0.24	AA	25.72%
Money Market Mutual Funds	4,035	4,035	0.00	AAA	7.99%
Total	$ 50,495	$ 50,574	0.22 (2)		100.00%

Deposits and Investments with Trustee:	Fair Value	Principal	WAM (Years)	Rating (1)	% of Total
U.S. Treasuries	$ 13,772	$ 13,811	0.75	AA	25.54%
Money Market Mutual Funds	40,143	40,143	0.00	AAA	74.46%
Total	$ 53,915	$ 53,954	0.19 (2)		100.00%

(1) The County obtains credit ratings from S&P, Moody's, and Fitch. The ratings indicative of the greatest degree of risk have been disclosed. NR means not rated.
(2) Portfolio weighted average maturity.

Note 2 – Cash and Investments (Continued)

Fair Value Measurements

The investments are categorized into its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Part of the Airport's cash and investments are combined with the County's pooled investments, and therefore, do not represent specific identifiable investments. The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as described above. For additional details regarding to the Pool investment portfolio and fair value measurements, 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.

As of June 30, 2017, the Airport had the following investments by fair value level:

		Fair Value Measurement		
	Total	Level 1	Level 2	Level 3
With Treasurer:				
U.S. Government Agencies	$ 33,473	$ --	$ 33,473	$ --
U.S. Treasuries	12,987	--	12,987	--
Total investments by fair value level	46,460	$ --	$ 46,460	$ --
Investments not subject to fair value hierarchy:				
Money Market Mutual Funds	4,035			
Total	$ 50,495			
With trustee:				
U.S. Treasuries	$ 13,772	$ --	$ 13,772	$ --
Total investments by fair value level	13,772	$ --	$ 13,772	$ --
Investments not subject to fair value hierarchy:				
Money Market Mutual Funds	40,143			
Total	$ 53,915			

Note 3 – Defined Benefit Pension Plan

Plan Description

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

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

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

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

Contributions

In accordance with various Board's resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. For the year ended June 30, 2017, the employer's contribution rate as a percentage of covered payroll for general members was 34.31%. The Airport's total contribution to OCERS for the year ended June 30, 2017, was $3,235.

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.

Note 3 – Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2017, the County reported a liability of $4,044,638 for its proportionate share of the net pension liability, of which the Airport's allocated share of the County's net pension liability totaled $38,570. The County's net pension liability was measured as of December 31, 2016, and the total pension liability was determined by an actuarial valuation from OCERS as of that date. The Airport's allocated share of the County's net pension liability is based on its percentage of actual employer contributions.

For the year ended June 30, 2017, the Airport recognized pension expense of $3,713, which represents the change in the net pension liability during the measurement period, adjusted for actual contributions and deferred recognition of changes in investment gain/loss, actuarial assumptions, and plan benefits.

Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner. At June 30, 2017, the Airport reported deferred outflows of resources and deferred inflows of resources related to pension as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ 4,319	$ 1,041
Difference between expected and actual experience	--	3,993
Changes of assumptions	712	1,163
Changes in proportion and differences between Airport contributions and proportionate share of contributions	144	1
Contributions subsequent to measurement date	1,784	--
Prepaid pension contribution	1,754	--
Total	$ 8,713	$ 6,198

$1,784 reported as deferred outflows of resources related to pension resulting from Airport contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

The Airport reported the full amount of prepaid pension contribution as a part of the prepaid expenses. However, due to the difference in the Airport's fiscal year end date and the net pension liability measurement date, half of the prepaid pension contribution, $1,754, was recognized as deferred outflows of resources, and the other half remained in prepaid expenses.

Note 3 – Defined Benefit Pension Plan (Continued)

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

Amounts, provided by OCERS' actuarial study reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as follows:

Year Ending June 30,	Amount
2018	$ 124
2019	124
2020	(202)
2021	(785)
2022	(284)
2023	--
Thereafter	--

For additional details on the defined benefit pension plan, actuarial assumptions and the net pension liability, refer to the County's CAFR. The CAFR is available by accessing the Auditor-Controller's website at http://www.ac.ocgov.com.

Note 4 – Postemployment Health Care Benefits

Plan Description

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

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

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.

Note 4 – Postemployment Health Care Benefits (Continued)

Funding Policy

As an enterprise fund of the County, the Airport was required to contribute 4.1% of its payroll for the year ended June 30, 2017. The Airport's contribution was $477, which was 100% of the required contribution.

For additional details on the Retiree Medical Plan, actuarial assumptions, funded status of the plan and required supplemental information refer to the County's CAFR. The CAFR is available by accessing the Auditor-Controller's website at http://www.ac.ocgov.com.

Note 5 – Long-Term Obligations

General

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

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of $233,115, with an original issue net premium of $288 and interest rates ranging from 3.00% to 5.75%. The 2009A and 2009B Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds and pay costs relating to the issuance of the bonds. The AIP consist of numerous direct improvements to the Airport facilities such as the construction of the new Terminal C, Parking Structure C and two new commuter/regional holdrooms at the north and south ends of the extended Terminal. As of June 30, 2017, the outstanding principal amount, including net discount, of the 2009A and 2009B Bonds were $58,070 and $129,248, respectively, and the outstanding interest were $39,391 and $47,548, respectively. The 2009B Bonds in the amount of $27,210 were called for early partial redemption on July 1, 2017. Refer to Note 13 – Subsequent Event for additional information.

Note 5 – Long-Term Obligations (Continued)

Airport Revenue Bonds, Series 2009A and 2009B (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 PFC revenue. The 2009A and 2009B Bonds are payable through July 2039. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the year ended June 30, 2017, the total principal and interest paid and total net revenues were $17,529 and $54,652 respectively. The total net revenues include $11,193 available PFC revenue for the year ended June 30, 2017.

Revenue bonds outstanding and related activity for the year ended June 30, 2017, were as follows:

	Balance at July 1, 2016	Additions	Deductions	Balance at June 30, 2017	Due in 1 year
Airport Revenue Bonds					
Series 2009A	$ 60,750	$ --	$ (1,595)	$ 59,155	$ 1,655
Bond Premium/(Discount)	(1,086)	--	1	(1,085)	--
Airport Revenue Bonds					
Series 2009B	136,320	--	(5,935)	130,385	33,435
Bond Premium/(Discount)	(858)	(279)	--	(1,137)	--
Total	$ 195,126	$ (279)	$ (7,529)	$ 187,318	$ 35,090

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

	2009A Bonds		2009B Bonds		
Year Ending June 30,	Principal	Interest	Principal	Interest	Total
2018	$ 1,655	$ 2,989	$ 33,435	$ 5,855	$ 43,934
2019	1,740	2,913	6,535	4,770	15,958
2020	1,810	2,833	6,845	4,448	15,936
2021	1,900	2,740	7,185	4,097	15,922
2022	1,995	2,640	7,545	3,729	15,909
2023-2027	11,665	11,475	28,290	14,526	65,956
2028-2032	13,360	8,193	24,240	6,425	52,218
2033-2037	14,430	4,754	9,275	3,131	31,590
2038-2040	10,600	854	7,035	567	19,056
Total	$ 59,155	$39,391	$130,385	$47,548	$276,479

Note 5 – Long-Term Obligations (Continued)

Other Long-term Liabilities

Other long-term liability activities for the year ended June 30, 2017, were as follows:

	Balance at July 1, 2016	Additions	Deductions	Balance at June 30, 2017	Due in 1 year
Compensated Employee Absences	$ 2,042	$ 1,894	$ (1,928)	$ 2,008	$ 1,057
Pollution Remediation Obligation	994	--	--	994	--
Total	$ 3,036	$ 1,894	$ (1,928)	$ 3,002	$ 1,057

Note 6 – Property Leased to Others

The Airport leases a portion of its capital assets under noncancelable operating lease agreements for airline operations, concessions, fixed based operations (FBO), and other commercial purposes. The cost and carrying value of the Airport's property under operating leases as of June 30, 2017 were as follows:

	Cost of Leased Property	Accumulated Depreciation	Total Carrying Value of Leased Property
Structures and improvements	$ 80,048	$ (24,381)	$ 55,667
Land	2,458	--	2,458
Balance at June 30, 2017	$ 82,506	$ (24,381)	$ 58,125

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2017 are as follows:

Year Ending June 30,	Future Minimum Rent
2018	$ 53,356
2019	41,533
2020	32,749
2021	21,047
2022	3,790
2023-2027	1,826
2028-2032	76
Total	$ 154,377

Note 6 – Property Leased to Others (Continued)

Airline minimum rental revenues are based on rates adopted by the Board and are subject to change semi-annually in accordance with the related airlines' operating lease agreements. FBO and 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 and FBO rental payments received by the Airport totaled $33,540 for the year ended June 30, 2017.

Note 7 – Commitments under Operating Leases

Lease expense was $293 for the year ended June 30, 2017. As of June 30, 2017, there was $130 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 $22,596 for the year ended June 30, 2017.

Interfund receivable/payable balances are the result of the time lag between the time goods and services are provided by other County departments to the Airport and payment from the Airport to the other funds is made.

The composition of interfund balances as of June 30, 2017, was as follows:

Due To	Due From	Amount
Airport	General Fund	$ 52
Total Due From County of Orange		$ 52

Due To	Due From	Amount
General Fund	Airport	$ 2,330
Internal Service Funds	Airport	213
Other Government Funds	Airport	62
Total Due To County of Orange		$ 2,605

Note 9 – Commitments

At June 30, 2017, the Airport was committed under contracts for the following construction projects:

Terminal Improvements	$ 42,128
Paularino Gate Improvements	3,454
Parking Structure C, Phase 2	2,652
Terminal Air Handler Replacement	1,050
Others	2,485
Total	$ 51,769

Note 10 – Changes in Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance at June 30, 2016	Additions	Deductions	Balance at June 30, 2017
Capital assets, not depreciated/amortized:				
Land	$ 15,678	$ --	$ --	$ 15,678
Construction in progress	27,318	59,035	(10,106)	76,247
Intangible assets in progress	1,833	--	(1,833)	--
Total capital assets, not depreciated/amortized	44,829	59,035	(11,939)	91,925
Capital assets, depreciated/amortized:				
Structures and improvements	757,825	7,029	--	764,854
Equipment	12,444	672	(304)	12,812
Infrastructure	226,469	2,879	--	229,348
Intangible assets	781	2,234	--	3,015
Total capital assets, depreciated/amortized	997,519	12,814	(304)	1,010,029
Less accumulated depreciation/amortization:				
Structures and improvements	(271,625)	(24,046)	--	(295,671)
Equipment	(9,596)	(680)	272	(10,004)
Infrastructure	(178,315)	(4,691)	--	(183,006)
Intangible assets	(125)	(403)	--	(528)
Total accumulated depreciation/amortization	(459,661)	(29,820)	272	(489,209)
Total capital assets depreciated/amortized, net	537,858	(17,006)	(32)	520,820
Total capital assets, net	$ 582,687	$ 42,029	$ (11,971)	$ 612,745

Total depreciation and amortization expense for the year ended June 30, 2017, was $29,820.

Capital Asset Impairments

No capital asset impairment was reported by the Airport for the year ended June 30, 2017.

Note 11 – New Accounting Pronouncements

The following summarizes recent GASB pronouncements implemented or effective in the year ended June 30, 2017:

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

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The Airport implemented this Statement in the year ended June 30, 2017; however, this Statement does not have any impact on the Airport's financial statements.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for reporting periods beginning after December 15, 2015. This Statement does not have any impact on the Airport's financial statements.

Note 11 – New Accounting Pronouncements (Continued)

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-An Amendment of GASB Statement No. 14.* This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Airport implemented this Statement in the year ended June 30, 2017; however, this Statement does not have any impact on the Airport's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The Airport implemented this Statement in the year ended June 30, 2017; however, this Statement does not have any impact on the Airport's financial statements.

The following summarizes recent GASB Pronouncements issued but not yet adopted that may impact future financial presentations. The Airport has not determined what, if any, impact implementation of the following Statements may have on future financial statements:

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The requirements of this Statement are effective for financial statements beginning after June 15, 2017, which requires the Airport to implement this Statement in the year ending June 30, 2018.

Note 11 – New Accounting Pronouncements (Continued)

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, which requires the Airport to implement this Statement in the year ending June 30, 2018.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for financial statements beginning after June 15, 2017, which requires the Airport to implement this Statement in the year ending June 30, 2018.

In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debit – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements beginning after June 15, 2017, which requires the Airport to implement this Statement in the year ending June 30, 2018.

In June 2017, GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflows of resources. The requirements of this Statement are effective for financial statements beginning after December 15, 2019, which requires the Airport to implement this Statement in the year ending June 30, 2021.

Note 12 – Pollution Remediation Obligation

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

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

The Airport started implementing the new remediation method in the fiscal year ended June 30, 2011. Following a remedial pilot test, the Airport has been performing monthly free-product removal at the Old Fuel Farm and performing annual groundwater monitoring at both sites. Active remediation has been delayed pending further guidance from the RWQCB, which could possibly affect the estimated pollution remediation liability as well as cause changes to the remedial technologies used to remediate the sites. As of June 30, 2017, the Airport has a liability of $994 based on management's assessment and the results of the consultant's evaluation of potential remediation costs. The liability will remain unchanged until active remediation begins or a closure plan is accepted by the RWQCB.

In 1995, the Airport entered into Memorandum of Understanding (MOU) with one of its fixed-base operators (FBO) lessees to address the remediation of the Old Fuel Farm. The FBO was identified as the operator of the site and the other responsible party. The lessee agreed to be obligated to pay 50% of the remediation costs associated with the Old Fuel Farm site. Reported in the Statement of Net Position as part of accounts receivable, the total expected recovery for the Old Fuel Farm site is $256 as of June 30, 2017.

The estimated pollution remediation obligation as of June 30, 2017, is:

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

Note 13 – Subsequent Event

On July 1, 2017, the Airport partially redeemed the 2009B Bonds scheduled to mature in 2034 in the amount of $27,210. The early partial redemption will result in total future interest cost savings of $13,556. Refer to Note 5 – Long-term Obligation for additional information.

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*

To the Board of Supervisors
County of Orange, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of John Wayne Airport (Airport), an enterprise fund of the County of Orange, California (County), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Airport's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Macias Gini & O'Connell LLP
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Newport Beach, CA 92660

Purpose of this Report

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

Macias Gini & O'Connell LLP

Newport Beach, California
December 8, 2017