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

Financial Statements
an Independent Auditor's Reports

for the Year Ended June 30, 2018

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

JOHN WAYNE AIRPORT
Financial Statements

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VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' 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, 2018, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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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, 2018, the changes in its financial position or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As described in Note 11 to the financial statements, the Airport adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as of July 1, 2017. 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 5, 2018, 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 solely 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 effectiveness of the 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 Airport's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 5, 2018

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018
(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, 2018. 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 $714,831 (net position) at June 30, 2018. Of this amount, $202,675 (unrestricted net position) may be used to meet the ongoing obligations of the Airport, $21,716 (restricted net position) was externally restricted for specific purposes, and $490,440 was the net investment in capital assets.
- Change in net position increased by $36,948 or 5.5% of the restated beginning net position for the year ended June 30, 2018. This increase consists of operating income of $10,097, nonoperating revenues of $22,022, and capital grant contributions of $4,829.
- Capital assets increased by $25,242 or 4.1% from June 30, 2017, primarily due to the additions to capital assets for the Terminal Improvements Project.
- Current and other assets decreased by 58,496 or 16.3%, and current liabilities decreased by $61,628 or 61.5% simultaneously, from June 30, 2017, primarily due to the payout for the early partial redemption of the Airport Revenue Bonds, Series 2009B (2009B Bonds) in the amount of $27,210 and the adjustment to exclude non-negotiable instruments and non-monetary guaranties in the amount of $25,920.

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 of 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, 2018, the Airport's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $714,831.

Net Position:

	2018	2017	2018 vs 2017 $ Change	2018 vs 2017 % Change
ASSETS				
Current and other assets	$ 300,154	$ 358,650	$ (58,496)	(16.3) %
Capital assets	637,987	612,745	25,242	4.1 %
TOTAL ASSETS	938,141	971,395	(33,254)	(3.4) %
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,060	8,713	347	4.0 %
LIABILITIES				
Current liabilties	38,584	100,212	(61,628)	(61.5) %
Noncurrent liabilities	186,899	192,780	(5,881)	(3.1) %
TOTAL LIABILITIES	225,483	292,992	(67,509)	(23.0) %
TOTAL DEFERRED INFLOWS OF RESOURCES	6,887	6,198	689	11.1 %
NET POSITION				
Net investment in capital assets	490,440	423,306	67,134	15.9 %
Restricted net position	21,716	39,956	(18,240)	(45.7) %
Unrestricted net position	202,675	217,656	(14,981)	(6.9) %
TOTAL NET POSITION	$ 714,831	$ 680,918	$ 33,913	5.0 %

At June 30, 2018, the largest component of the Airport's net position (68.6%) 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, 2018, an additional component of the Airport's net position (3.0%) 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 $202,675 (28.4%) is unrestricted and may be used to meet the Airport's ongoing obligations.

Comparison between the years ended June 30, 2018 and 2017:

The Airport's total assets decreased by $33,254 or 3.4%. Current and other assets decreased by $58,496 or 16.3% primarily due to a decrease in restricted investments with trustee as a result of the payout for the early partial redemption of the Airport's 2009B Bonds in the amount of $27,210 on July 1, 2017, and a decrease in restricted deposits in lieu of cash as a result of the adjustment to exclude non-negotiable instruments and non-monetary guaranties in the amount of $25,920. Capital assets increased by $25,242 or 4.1% 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 5 to the financial statements, Long-Term Obligations, and Note 10, Changes in Capital Assets, for additional information.

The Airport's total liabilities decreased by $67,509 or 23.0%. Current liabilities decreased by $61,628 or 61.5% primarily due to a decrease in bonds payable as a result of the payout for the early partial redemption of the Airport's 2009B Bonds in the amount of $27,210 on July 1, 2017, and a decrease in deposit from others as a result of the adjustment to exclude non-negotiable instruments and non-monetary guaranties in the amount of $25,920. Noncurrent liabilities decreased by $5,881 or 3.1% mainly due to a decrease in bonds payable for the 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, 2018
(To the Nearest Thousand)

During the year ended June 30, 2018, the Airport's change in net position increased by $36,948 or 5.5% of the restated net position, beginning of year.

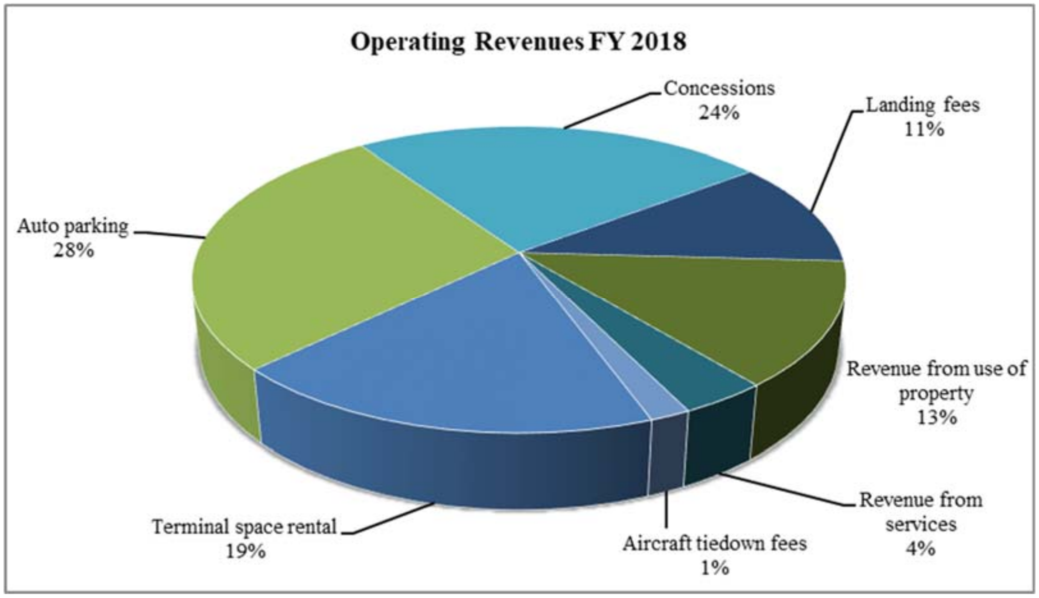
Revenues, Expenses, and Change in Net Position:

	2018*	2017	2018 vs 2017 $ Change	2018 vs 2017 % Change
OPERATING REVENUES				
Terminal space rental	$ 24,135	$ 23,977	$ 158	0.7 %
Auto parking	36,449	37,880	(1,431)	(3.8) %
Concessions	31,854	31,138	716	2.3 %
Landing fees	14,760	14,429	331	2.3 %
Revenue from use of property	17,345	16,581	764	4.6 %
Revenue from services	4,843	4,331	512	11.8 %
Aircraft tiedown fees	2,244	1,825	419	23.0 %
Total operating revenues	131,630	130,161	1,469	1.1 %
OPERATING EXPENSES				
Professional and specialized services	42,409	40,963	1,446	3.5 %
Salaries and employee benefits	20,320	19,497	823	4.2 %
Other services and supplies	28,261	28,479	(218)	(0.8) %
Taxes and other fees	151	166	(15)	(9.0) %
Depreciation and amortization	30,392	29,820	572	1.9 %
Total operating expenses	121,533	118,925	2,608	2.2 %
Operating income	10,097	11,236	(1,139)	(10.1) %
NONOPERATING REVENUES (EXPENSES)				
Interest income	2,896	1,436	1,460	101.7 %
Interest expense	(3,126)	(7,104)	3,978	(56.0) %
Bankruptcy settlement proceeds	1,113	768	345	44.9 %
Fines and penalties	195	198	(3)	(1.5) %
Gain (loss) on disposition of capital assets, net	(92)	(23)	(69)	300.0 %
Other revenue, net	310	146	164	112.3 %
PFC revenue	20,726	19,901	825	4.1 %
Total nonoperating revenues	22,022	15,322	6,700	43.7 %
INCOME BEFORE CAPITAL GRANT CONTRIBUTIONS	32,119	26,558	5,561	20.9 %
Capital grant contributions	4,829	270	4,559	1688.5 %
CHANGE IN NET POSITION	36,948	26,828	10,120	37.7 %
TOTAL NET POSITION, BEGINNING OF YEAR, AS RESTATED	677,883	654,090	23,793	3.6 %
TOTAL NET POSITION, END OF YEAR	$ 714,831	$ 680,918	$ 33,913	5.0 %

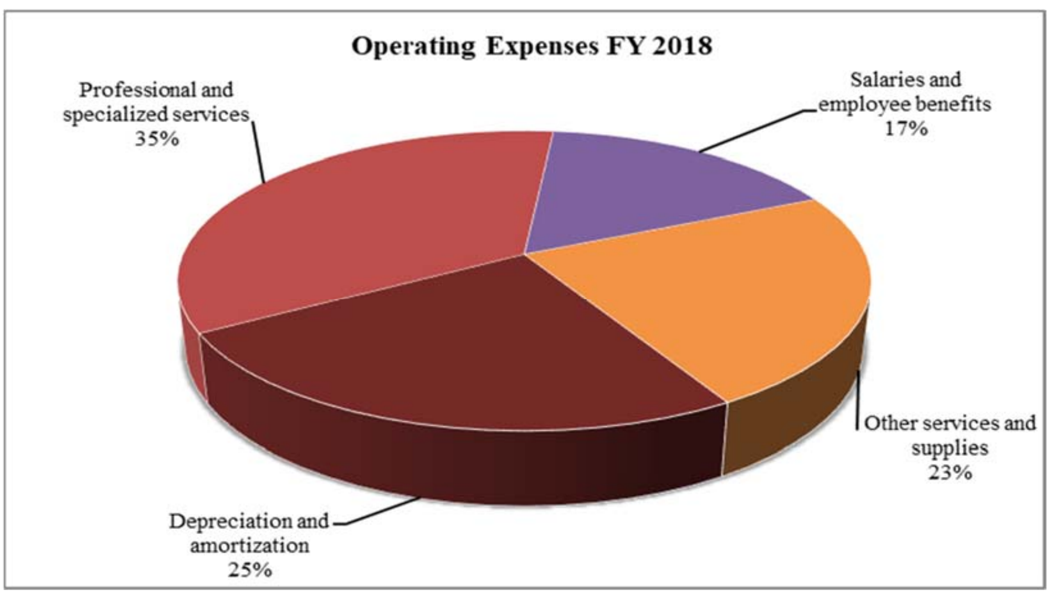
*As adjusted in the year related to the implementation of GASB Statement No. 75.

Comparison between the years ended June 30, 2018 and 2017:

The Airport's operating revenues increased by $1,469 or 1.1% primarily due to an increase in overall operating revenues, partially offset by a decrease in auto parking.



The Airport's operating expenses increased by $2,608 or 2.2% primarily due to an increase in professional and specialized services related to Airport security costs and an increase in salaries and employee benefits.



For the year ended June 30, 2018, the Airport's nonoperating revenues increased by $6,700 or 43.7% primarily due to an increase in interest income from investments and a decrease in interest expense as a result of the early partial redemption of the Airport's 2009B Bonds and increased interest capitalization related to the Terminal Improvements Project. Capital grant contributions increased by $4,599 or 1688.5% due to an increase in cost reimbursements for federally funded construction projects.

Capital Assets

The Airport's capital assets as of June 30, 2018, amounted to $637,987, 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, 2018, was an increase of $25,242 or 4.1%.

Capital Assets (Net of Accumulated Depreciation and Amortization):

	2018	2017	2018 vs 2017 $ Change	2018 vs 2017 % Change
CAPITAL ASSETS				
Land	$ 15,678	$ 15,678	$ --	0.0 %
Construction in progress	128,153	76,247	51,906	68.1 %
Structures and improvements	446,187	469,183	(22,996)	(4.9) %
Equipment	4,184	2,808	1,376	49.0 %
Infrastructure	41,865	46,342	(4,477)	(9.7) %
Intangible assets	1,920	2,487	(567)	(22.8) %
TOTAL CAPITAL ASSETS	$ 637,987	$ 612,745	$ 25,242	4.1 %

A major capital asset project completed during the year ended June 30, 2018, was the Lighting Systems Upgrades with an approximate cost of $1,611.

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, 2018, the Airport was committed under contracts for construction projects in the amount of $9,268. Refer to Note 9 to the financial statements, Commitments, for more information.

Long-Term Debt Obligations

At June 30, 2018, the Airport had total bond obligations of $152,199. 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, 2018:

	2018	2017	2018 vs 2017 $ Change	2018 vs 2017 % Change
LONG-TERM DEBT OBLIGATIONS				
Airport Revenue Bonds, Series 2009A	$ 57,500	$ 59,155	$ (1,655)	(2.8) %
Airport Revenue Bonds, Series 2009B	96,950	130,385	(33,435)	(25.6) %
Add: Premium/(Discount) on Bonds Payable	(2,251)	(2,222)	(29)	1.3 %
TOTAL LONG-TERM DEBT OBLIGATIONS	$ 152,199	$ 187,318	$ (35,119)	(18.7) %

During the year ended June 30, 2018, the decrease in the outstanding bonds was due to early partial redemption, 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, 2018			
Airport Revenue Bonds, Series 2009A and 2009B	AA-	Aa3	AA-
June 30, 2017			
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

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 2017. The Terminal Improvements Project is expected to be completed by the end of 2018, ahead of the original project schedule.

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. And for a second consecutive year, the Airport was the recipient of the Best Large Airport Award in 2018, garnering the highest overall rating in J.D. Power's survey of all North American airports.

The construction of the Paularino Gate Improvements Project began in August 2017 and is expected to be completed by the end of 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 chip enabled credit card technology, known as EMV (Europay, MasterCard and Visa) and near-field communication or NFC/Apple Pay, was successfully implemented in the Airport's Parking Access and Revenue Control System (PARCS) in March 2018.

Other significant capital projects slated for the next three years include Airport Operations Center, Airport Power Generation and Distribution Upgrades, Terminals A and B Air Handlers Replacement, Airfield Lighting and Signage Upgrade, Airport Exterior Lighting Improvements Project, and Concession Development Infrastructure.

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, 2018
(To the Nearest Thousand)

ASSETS		
Current assets:		
Cash (Note 2)	$	2,598
Pooled cash and investments with Treasurer (Note 2)		190,170
Cash equivalents/specific investments with Treasurer (Note 2)		16,629
Imprest cash (Note 2)		14
Accounts receivable		4,761
Pollution remediation obligation recoveries (Note 12)		256
Interest receivable		802
Due from other governmental agencies		4,161
Prepaid expenses		2,150
Restricted cash and investments with trustee (Note 2)		12,607
Restricted pooled cash and investments held for others (Note 2)		2,421
Restricted pooled cash and investments with Treasurer (Note 2)		10,017
Restricted Passenger Facility Charges (PFC) receivable		3,027
Restricted deposits in lieu of cash		5,340
Total current assets		254,953
Noncurrent assets:		
Specific investments with Treasurer (Note 2)		34,452
Restricted investments with trustee (Note 2)		10,749
Capital assets (Note 10):		
Land		15,678
Construction in progress		128,153
Structures and improvements		766,346
Equipment		14,840
Infrastructure - runways, taxiways and aprons		229,348
Intangible assets		3,028
Less: accumulated depreciation/amortization		(519,406)
Total capital assets, net		637,987
Total noncurrent assets		683,188
TOTAL ASSETS		938,141
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension (Note 3)		8,861
Deferred outflows of resources related to OPEB (Note 4)		199
TOTAL DEFERRED OUTFLOWS OF RESOURCES		9,060

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Net Position (Continued)
June 30, 2018
(To the Nearest Thousand)

LIABILITIES		
Current liabilities:		
Accounts payable	$	10,340
Retainage payable		249
Salaries and employee benefits payable		458
Interest payable		3,935
Unearned revenue		3,717
Due to County of Orange (Note 8)		2,547
Due to other governmental agencies		199
Compensated employee absences (Note 5)		1,064
Intangible asset obligations payable		43
Bonds payable, net (Note 5)		8,271
Deposits from others		7,761
Total current liabilities		38,584
Noncurrent liabilities:		
Pollution remediation obligation (Notes 5 and 12)		994
Compensated employee absences (Note 5)		898
Intangible asset obligations payable		4
Bonds payable, net (Note 5)		143,928
Net pension liability (Note 3)		38,074
Net OPEB liability (Note 4)		3,001
Total noncurrent liabilities		186,899
TOTAL LIABILITIES		225,483
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension (Note 3)		6,785
Deferred inflows of resources related to OPEB (Note 4)		102
TOTAL DEFERRED INFLOWS OF RESOURCES		6,887
NET POSITION		
Net investment in capital assets		490,440
Restricted for debt service		8,672
Restricted for PFC (Note 1)		12,044
Restricted for capital projects - replacements and renewals		1,000
Unrestricted		202,675
TOTAL NET POSITION	$	714,831

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2018
(To the Nearest Thousand)

OPERATING REVENUES		
Terminal space rental	$	24,135
Auto parking		36,449
Concessions		31,854
Landing fees		14,760
Revenue from use of property		17,345
Revenue from services		4,843
Aircraft tiedown fees		2,244
Total operating revenues		131,630
OPERATING EXPENSES		
Professional and specialized services		42,409
Salaries and employee benefits		20,320
Other services and supplies		28,261
Taxes and other fees		151
Depreciation and amortization (Note 10)		30,392
Total operating expenses		121,533
Operating income		10,097
NONOPERATING REVENUES (EXPENSES)		
Interest income		2,896
Interest expense		(3,126)
Bankruptcy settlement proceeds		1,113
Fines and penalties		195
Gain (loss) on disposition of capital assets, net		(92)
Other revenue, net		310
PFC revenue (Note 1)		20,726
Total nonoperating revenues		22,022
INCOME BEFORE CAPITAL GRANT CONTRIBUTIONS		32,119
Capital grant contributions		4,829
CHANGE IN NET POSITION		36,948
TOTAL NET POSITION, BEGINNING OF YEAR, AS RESTATED (NOTE 13)		677,883
TOTAL NET POSITION, END OF YEAR	$	714,831

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statement of Cash Flows

For the Year Ended June 30, 2018

(To the Nearest Thousand)

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	132,583
Payments to suppliers for goods and services		(72,661)
Payments to employees		(20,491)
Payments to County of Orange		(6)
Payments for taxes and other fees		(151)
Other receipts		1,436
Net cash provided by operating activities		40,710
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		(59,866)
Principal payments on long-term debt		(35,090)
Interest paid on long-term debt		(8,845)
Proceeds from capital grant contributions		1,390
Proceeds from sale of capital assets		8
Receipts from PFC		20,474
Net cash used in capital and related financing activities		(81,929)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of investments, net		6,923
Interest received on investments		2,670
Net cash provided by investing activities		9,593
NET DECREASE IN CASH AND CASH EQUIVALENTS		(31,474)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		265,930
CASH AND CASH EQUIVALENTS, END OF YEAR	$	234,456

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statement of Cash Flows (Continued)
For the Year Ended June 30, 2018
(To the Nearest Thousand)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$	10,097
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization		30,392
Fines and penalties		195
Other revenue		1,171
(INCREASES) DECREASES IN:		
Accounts receivable		(591)
Due from County of Orange		52
Due from other governmental agencies		28
Prepaid expenses		(1)
Restricted deposits in lieu of cash		24,629
Deferred outflows of resources related to pension		(148)
Deferred outflows of resources related to OPEB		28
INCREASES (DECREASES) IN:		
Accounts payable		(1,951)
Salaries and employee benefits payable		25
Unearned revenue		(267)
Due to County of Orange		(58)
Due to other governmental agencies		45
Compensated employee absences		(46)
Deposits from others		(22,821)
Net pension liability		(496)
Net OPEB liability		(262)
Deferred inflows of resources related to pension		587
Deferred inflows of resources related to OPEB		102
Net cash provided by operating activities	$	40,710
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash	$	2,598
Pooled cash and investments with Treasurer		190,170
Specific investments with Treasurer		51,081
Imprest cash		14
Restricted investments with trustee		23,356
Restricted pooled cash and investments held for others		2,421
Restricted pooled cash and investments with Treasurer		10,017
Total		279,657
Less: Specific investments with original maturities of 90 days or more		(34,452)
Investments held with trustee for debt service reserve requirement		(10,749)
TOTAL CASH AND CASH EQUIVALENTS	$	234,456
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Acquisition of capital assets with accounts payable	$	5,808
Acquisition of capital assets with retainage payable		242
Change in fair value of investments not considered cash or cash equivalents		40
Accrued capital grant contribution receivable		3,707
Loss on disposition of capital assets		92

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 donated capital assets are recorded at acquisition value when received. Assets are capitalized when the original unit cost is equal to or greater than the County's capitalization threshold of $5 for equipment, $150 for structures and improvements, $150 for intangible assets except $5 for commercially acquired software, $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 5 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, 2018, the total interest expense incurred through bond financing was $7,841, and the capitalized interest was $4,715.

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 in a safe with the Airport.

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 $1,116,673. 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 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.

Other Postemployment Benefit

The Airport recognizes a net Other Postemployment Benefit (OPEB) liability to reflect its portion in the County's proportionate share of the excess of the total OPEB liability over the fiduciary net position of the County's Retiree Medical Plan.

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, 2018, the Airport reported restricted net position of $21,716 for debt service, Passenger Facility Charges (PFC) and replacements and renewals for capital projects, of which $12,044 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, 2018, $20,726 PFC revenue was reported and $32,828 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 38%, 16%, and 15% of market share during the year ended June 30, 2018.

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, 2018, was as follows:

Cash and pooled cash and investments:		
Cash on hand	$	2,612
Pooled cash and investments, restricted		12,438
Pooled cash and investments		190,170
Total cash and pooled cash and investments		205,220
Investments:		
With Treasurer		42,545
With Treasurer, cash and timing differences		8,536
With trustee, restricted		23,356
Total investments		74,437
Total cash and investments	$	279,657

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 $51,081 at June 30, 2018, of which $16,629, 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 investments and 5 years for long-term investments. At June 30, 2018, the WAM for the Pool, specific investments with Treasurer, and investments with trustee approximated 350 days, 84 days, and 44 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	$65 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, 2018, 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 Bonds	$ 1,000	$ 1,000	0.00	AA	2.35%
Federal Farm Credit Bank Discount Notes	2,000	2,000	0.01	A-1	4.70%
Federal Farm Credit Bank Bonds	2,487	2,500	0.09	AA	5.85%
Federal Home Loan Bank Discount Notes	9,537	9,565	0.15	A-1	22.41%
Federal Home Loan Mortgage Corporation Bonds	3,296	3,300	0.03	AA	7.75%
U.S. Treasuries	24,211	24,225	0.18	AA	56.91%
Money Market Mutual Funds	14	14	0.00	AAA	0.03%
Total	$ 42,545	$ 42,604	0.23 (2)		100.00%

Investments with Trustee:	Fair Value	Principal	WAM (Years)	Rating (1)	% of Total
U.S. Treasuries	$ 10,927	$ 10,960	0.25	AA	46.78%
Money Market Mutual Funds	12,429	12,429	0.00	AAA	53.22%
Total	$ 23,356	$ 23,389	0.12 (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.

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.

Note 2 – Cash and Investments (Continued)

Fair Value Measurements (Continued)

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 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, 2018, 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	$ 18,320	$ --	$ 18,320	$ --
U.S. Treasuries	24,211	--	24,211	--
Total investments by fair value level	42,531	$ --	$ 42,531	$ --
Investments not subject to fair value hierarchy:				
Money Market Mutual Funds	14			
Total	$ 42,545			
With trustee:				
U.S. Treasuries	$ 10,927	$ --	$ 10,927	$ --
Total investments by fair value level	10,927	$ --	$ 10,927	$ --
Investments not subject to fair value hierarchy:				
Money Market Mutual Funds	12,429			
Total	$ 23,356			

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, 2018, the employer's contribution rate as a percentage of covered payroll for general members was 34.70%. The Airport's total contribution to OCERS for the year ended June 30, 2018, was $3,478.

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, 2018, the County reported a liability of $3,984,401 for its proportionate share of the net pension liability, of which the Airport's allocated share of the County's net pension liability totaled $38,074. The County's net pension liability was measured as of December 31, 2017, and the total pension liability was determined by an actuarial valuation from OCERS. 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, 2018, the Airport recognized pension expense of $3,407, 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 the net pension liability to be recognized in future periods in a systematic and rational manner. At June 30, 2018, 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	$ --	$ 2,612
Difference between expected and actual experience	104	3,309
Changes of assumptions	4,892	863
Changes in proportion and differences between Airport contributions and proportionate share of contributions	170	1
Contributions subsequent to measurement date	1,980	--
Prepaid pension contribution	1,715	--
Total	$ 8,861	$ 6,785

$1,980 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, 2019.

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, $1,715, 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
2019	$ (180)
2020	(520)
2021	(1,128)
2022	(605)
2023	806
2024	8
Thereafter	--

For additional details on the defined benefit pension plan, actuarial assumptions, the net pension liability, and the required supplementary 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 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 cost-sharing multiple-employer defined 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)

Contributions

As an enterprise fund of the County, the Airport was required to contribute 4.1% of its payroll for the year ended June 30, 2018. The Airport's contribution was $521, which was 100% of the required contribution.

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

For the year ended June 30, 2018, the County reported a liability of $364,071 for its proportionate share of the collective net OPEB liability, of which the Airport's allocated share of the County's net OPEB liability totaled $3,001. The County's net OPEB liability was measured as of December 31, 2017, and the total OPEB liability was determined by an actuarial valuation. The Airport's allocated share of the County's net OPEB liability is based on its percentage of actual employer contributions.

For the year ended June 30, 2018, the Airport recognized OPEB expense of $294. Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to the net OPEB liability to be recognized in future periods in a systematic and rational manner. At June 30, 2018, the Airport reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings on pension plan investments	$ --	$ 102
Contributions subsequent to measurement date	199	--
Total	$ 199	$ 102

$199 reported as deferred outflows of resources related to OPEB resulting from Airport contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Note 4 – Postemployment Health Care Benefits (Continued)

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

Amounts provided by the actuarial study reported as deferred inflows of resources related to OPEB will be recognized as follows:

Year Ending June 30,	Amount	
2019	$	(27)
2020		(25)
2021		(25)
2022		(25)
Thereafter		--

For additional details on the Retiree Medical Plan, actuarial assumptions, funded status of the plan, and the 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 construction of Terminal C, Parking Structure C and two commuter/regional holdrooms at the north and south ends of the extended Terminal. As of June 30, 2018, the outstanding principal amount, including net discount, of the 2009A and 2009B Bonds were $56,435 and $95,764, respectively, and the outstanding interest were $36,402 and $41,693, respectively. The 2009B Bonds in the amount of $27,210 were called for early partial redemption on July 1, 2017.

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, 2018, the total principal and interest paid and total net revenues were $43,934 (including $27,210 early bond redemption) and $54,760 respectively. The total net revenues include $9,902 available PFC revenue for the year ended June 30, 2018.

Revenue bonds outstanding and related activity for the year ended June 30, 2018, were as follows:

	Balance at July 1, 2017	Additions	Deductions	Balance at June 30, 2018	Due in 1 year
Airport Revenue Bonds					
Series 2009A	$ 59,155	$ --	$ (1,655)	$ 57,500	$ 1,740
Bond Premium/(Discount)	(1,085)	--	20	(1,065)	(19)
Airport Revenue Bonds					
Series 2009B	130,385	--	(33,435)	96,950	6,535
Bond Premium/(Discount)	(1,137)	(49)	--	(1,186)	15
Total	$ 187,318	$ (49)	$ (35,070)	$ 152,199	$ 8,271

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
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	2,100	2,533	4,115	3,432	12,180
2024-2028	12,270	10,857	31,930	12,994	68,051
2029-2033	13,255	7,525	18,110	5,339	44,229
2034-2038	15,185	3,976	9,875	2,628	31,664
2039-2040	7,245	385	4,810	256	12,696
Total	$ 57,500	$36,402	$ 96,950	$41,693	$232,545

Note 5 – Long-Term Obligations (Continued)

Other Long-term Liabilities

Other long-term liability activities for the year ended June 30, 2018, were as follows:

	Balance at July 1, 2017	Additions	Deductions	Balance at June 30, 2018	Due in 1 year
Compensated Employee Absences	$ 2,008	$ 1,868	$ (1,914)	$ 1,962	$ 1,064
Pollution Remediation Obligation	994	--	--	994	--
Total	$ 3,002	$ 1,868	$ (1,914)	$ 2,956	$ 1,064

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-base operators (FBO), and other commercial purposes. The cost and carrying value of the Airport's property under operating leases as of June 30, 2018, were as follows:

	Cost of Leased Property	Accumulated Depreciation	Total Carrying Value of Leased Property
Structures and improvements	$ 92,212	$ (28,116)	$ 64,096
Land	2,455	--	2,455
Balance at June 30, 2018	$ 94,667	$ (28,116)	$ 66,551

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2018, are as follows:

Year Ending June 30,	Future Minimum Rent
2019	$ 45,947
2020	36,999
2021	23,967
2022	5,251
2023	1,842
2024-2028	7,984
2029-2033	56
Total	$ 122,046

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 airline fees and a percentage of the concessioners' gross revenues. Contingent rental payments received by the Airport totaled $33,349 for the year ended June 30, 2018.

Note 7 – Commitments under Operating Leases

Lease expense was $240 for the year ended June 30, 2018. As of June 30, 2018, there was $125 in outstanding lease commitments.

Note 8 – Related Party Transactions

The Airport reimburses the County for the cost of providing security, insurance and other administrative services to the Airport. Amounts charged by other County departments are reported as operating expenses during the year incurred, and totaled $23,034 for the year ended June 30, 2018.

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, 2018, was as follows:

Due To	Due From	Amount	
General Fund	Airport	$	2,271
Internal Service Funds	Airport		231
Other Governmental Funds	Airport		45
Total Due To County of Orange		$	2,547

Note 9 – Commitments

At June 30, 2018, the Airport was committed under contracts for the following construction projects:

Parking Structure C, Phase 2	$ 2,652
Terminal Improvements	2,139
Taxiway B Rehabilitation	1,518
Others	2,959
Total	$ 9,268

Note 10 – Changes in Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance at June 30, 2017	Additions	Deductions	Balance at June 30, 2018
Capital assets, not depreciated/amortized:				
Land	$ 15,678	$ --	$ --	$ 15,678
Construction in progress	76,247	53,616	(1,710)	128,153
Total capital assets, not depreciated/amortized	91,925	53,616	(1,710)	143,831
Capital assets, depreciated/amortized:				
Structures and improvements	764,854	1,705	(213)	766,346
Equipment	12,812	2,110	(82)	14,840
Infrastructure	229,348	--	--	229,348
Intangible assets	3,015	13	--	3,028
Total capital assets, depreciated/amortized	1,010,029	3,828	(295)	1,013,562
Less accumulated depreciation/amortization:				
Structures and improvements	(295,671)	(24,601)	113	(320,159)
Equipment	(10,004)	(734)	82	(10,656)
Infrastructure	(183,006)	(4,477)	--	(187,483)
Intangible assets	(528)	(580)	--	(1,108)
Total accumulated depreciation/amortization	(489,209)	(30,392)	195	(519,406)
Total capital assets depreciated/amortized, net	520,820	(26,564)	(100)	494,156
Total capital assets, net	$ 612,745	$ 27,052	$ (1,810)	$ 637,987

Total depreciation and amortization expense for the year ended June 30, 2018, was $30,392.

Note 11 – New Accounting Pronouncements

The following summarizes recent GASB pronouncements implemented or effective in the year ended June 30, 2018:

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The provisions of this Statement are effective for reporting periods beginning after June 15, 2016. The County's OPEB plans are calendar year based; therefore, the Airport implemented this Statement in the year ended June 30, 2018.

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. The Airport implemented this Statement in the year ended June 30, 2018. Refer to Note 13, Change in Accounting Principle, for additional information.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. 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. The Airport implemented this Statement in the year ended June 30, 2018; however, this Statement did not have any impact on the Airport's financial statements.

Note 11 – New Accounting Pronouncements (Continued)

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 (pensions and OPEB). The requirements of this Statement are effective for financial statements beginning after June 15, 2017. The Airport implemented this Statement in the year ended June 30, 2018; however, this Statement did not have any impact on the Airport's financial statements.

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. The Airport implemented this Statement in the year ended June 30, 2018; however, this Statement did 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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement requires the recognition of a liability and a corresponding deferred outflows of resources associated with an asset retirement obligation based on the criteria and the measurement established in the Statement. This Statement also requires disclosure of required information about the asset retirement obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, which requires the Airport to implement this Statement in the year ending June 30, 2019.

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement also describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, which requires the Airport to implement this Statement in the year ending June 30, 2020.

Note 11 – New Accounting Pronouncements (Continued)

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.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, which requires the Airport to implement this Statement in the year ending June 30, 2019.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. The Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, which requires the Airport to implement this Statement in the year ending June 30, 2021.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. The Statement also requires that a component unit in which a government has a 100% equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired 100% equity interest in the component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, which requires the Airport to implement this Statement in the year ending June 30, 2020.

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-phase 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, 2018, 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 is not expected to decrease until active remediation begins or a closure plan is accepted by the RWQCB.

In 1995, the Airport entered into a Memorandum of Understanding (MOU) with one of its 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, 2018.

The estimated pollution remediation obligation as of June 30, 2018, is:

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

Note 13 – Change in Accounting Principle

In the year ended June 30, 2018, the Airport implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* and restated the beginning net position as of July 1, 2017, by $3,035 to recognize the net OPEB liability and deferred outflows of resources related to OPEB. The restatement of the beginning net position is reflected in the Statement of Revenues, Expenses, and Change in Net Position:

Net position at July 1, 2017, as previously reported	$	680,918
Net OPEB liability		(3,262)
Deferred outflows of resources related to OPEB		227
Net position at July 1, 2017, as restated	$	677,883

Refer to Note 11, New Accounting Pronouncements, and Note 4, Postemployment Health Care Benefits, for additional information regarding GASB Statement No. 75 and Airport's implementation of this Statement.

INDEPENDENT AUDITORS' 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, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2018. Our report included an emphasis of matter paragraph stating that the financial statements of the Airport do not purport to, and do not, present fairly the financial position of the County as of June 30, 2018. Our report also included an emphasis of matter paragraph regarding the County's implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
December 5, 2018