Financial Statements
June 30, 2019

John Wayne Airport
(An Enterprise Fund of the County of Orange, California)

EideBailly

JOHN WAYNE AIRPORT
Financial Statements

Table of Contents

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, 2019, 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 opinions 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.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Airport, as of June 30, 2019, and the respective 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.

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, 2019, the changes in its financial position or, where applicable, 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.

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

Other Reporting Required by *Government Auditing Standards*
In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2019, 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.

Eide Bailly LLP

Laguna Hills, California
December 11, 2019

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, 2019. 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 $746,816 (net position) at June 30, 2019. Of this amount, $211,771 (unrestricted net position) may be used to meet the ongoing obligations of the Airport, $6,311 (restricted net position) was externally restricted for specific purposes, and $528,734 was the net investment in capital assets.
- Total net position increased by $31,985 or 4.5% for the year ended June 30, 2019. This increase consists of operating income of $8,575, nonoperating revenues of $21,986, and capital grant contributions of $1,424.
- Total liabilities decreased by $52,890 or 23.5% for the year ended June 30, 2019, primarily due to the early partial redemption and refunding of the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds). Bonds payable decreased by $54,120 from June 30, 2018.

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, 2019, the Airport's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $746,816.

Net Position:

	2019	2018	2019 vs 2018 $ Change	2019 vs 2018 % Change
ASSETS				
Current and other assets	$ 289,693	$ 300,154	$ (10,461)	(3.5) %
Capital assets	617,943	637,987	(20,044)	(3.1) %
TOTAL ASSETS	907,636	938,141	(30,505)	(3.3) %
TOTAL DEFERRED OUTFLOWS OF RESOURCES	15,268	9,060	6,208	68.5 %
LIABILITIES				
Current liabilties	27,977	38,584	(10,607)	(27.5) %
Noncurrent liabilities	144,616	186,899	(42,283)	(22.6) %
TOTAL LIABILITIES	172,593	225,483	(52,890)	(23.5) %
TOTAL DEFERRED INFLOWS OF RESOURCES	3,495	6,887	(3,392)	(49.3) %
NET POSITION				
Net investment in capital assets	528,734	490,440	38,294	7.8 %
Restricted net position	6,311	21,716	(15,405)	(70.9) %
Unrestricted net position	211,771	202,675	9,096	4.5 %
TOTAL NET POSITION	$ 746,816	$ 714,831	$ 31,985	4.5 %

At June 30, 2019, the largest component of the Airport's net position (70.8%) 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 and debt-related deferred outflows and inflows of resources. 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, 2019, an additional component of the Airport's net position (0.9%) 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 $211,771 (28.3%) is unrestricted and may be used to meet the Airport's ongoing obligations.

Comparison between the years ended June 30, 2019 and 2018:

The Airport's total assets decreased by $30,505 or 3.3%, primarily due to a decrease in cash and investments and capital assets. The decrease in cash and investment was due to the early partial redemption of the 2009B Bonds and the Airport's cash contribution to pay down the 2009A and 2009B Bonds in connection with the refunding. Additionally, the decrease in capital assets was due to the asset depreciation and amortization.

The Airport's total liabilities decreased by $52,890 or 23.5%, primarily due to a decrease in bonds payable as a result of the early partial redemption, pay down, and refunding of the 2009A and 2009B Bonds. 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, 2019
(To the Nearest Thousand)

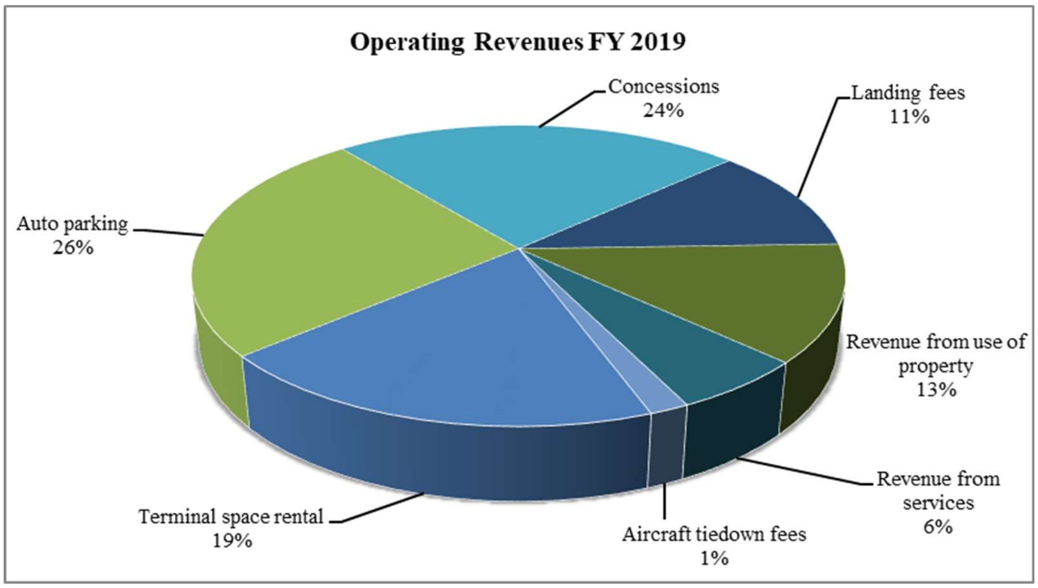
During the year ended June 30, 2019, the Airport's net position increased by $31,985 or 4.5%.

Revenues, Expenses, and Change in Net Position:

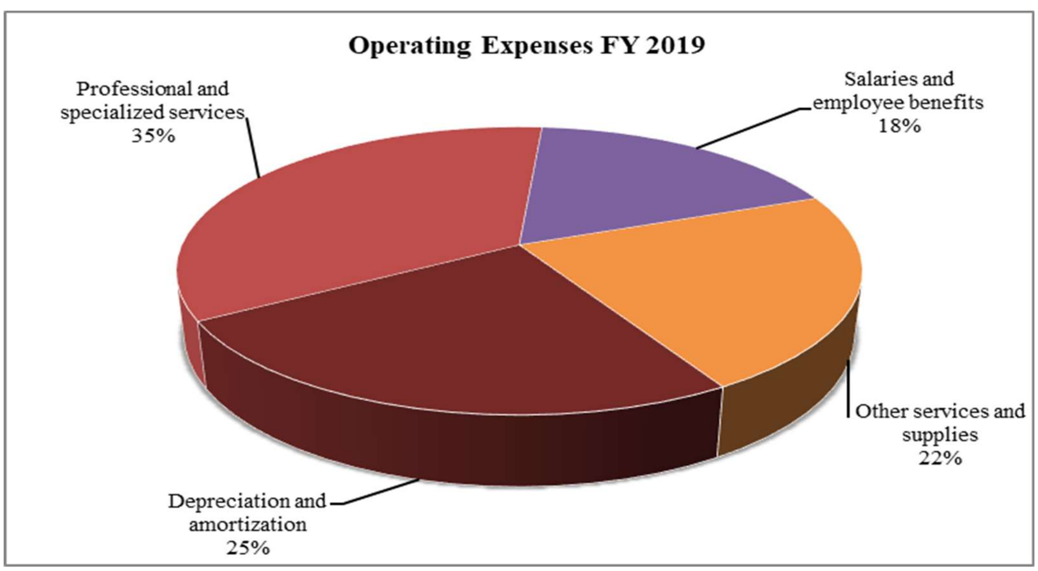
	2019	2018	2019 vs 2018 $ Change	2019 vs 2018 % Change
OPERATING REVENUES				
Terminal space rental	$ 26,321	$ 24,135	$ 2,186	9.1 %
Auto parking	35,004	36,449	(1,445)	(4.0) %
Concessions	32,577	31,854	723	2.3 %
Landing fees	15,554	14,760	794	5.4 %
Revenue from use of property	17,254	17,345	(91)	(0.5) %
Revenue from services	7,840	4,843	2,997	61.9 %
Aircraft tiedown fees	2,286	2,244	42	1.9 %
Total operating revenues	136,836	131,630	5,206	4.0 %
OPERATING EXPENSES				
Professional and specialized services	44,330	42,409	1,921	4.5 %
Salaries and employee benefits	22,982	20,320	2,662	13.1 %
Other services and supplies	28,547	28,261	286	1.0 %
Taxes and other fees	154	151	3	2.0 %
Depreciation and amortization	32,248	30,392	1,856	6.1 %
Total operating expenses	128,261	121,533	6,728	5.5 %
Operating income	8,575	10,097	(1,522)	(15.1) %
NONOPERATING REVENUES (EXPENSES)				
Interest income	8,214	2,896	5,318	183.6 %
Interest expense	(6,778)	(3,126)	(3,652)	116.8 %
Bankruptcy settlement proceeds	--	1,113	(1,113)	(100.0) %
Fines and penalties	272	195	77	39.5 %
Gain (loss) on disposition of capital assets, net	(23)	(92)	69	(75.0) %
Other revenue (expense), net	(376)	310	(686)	(221.3) %
PFC revenue	20,677	20,726	(49)	(0.2) %
Total nonoperating revenues	21,986	22,022	(36)	(0.2) %
INCOME BEFORE CAPITAL GRANT CONTRIBUTIONS	30,561	32,119	(1,558)	(4.9) %
Capital grant contributions	1,424	4,829	(3,405)	(70.5) %
CHANGE IN NET POSITION	31,985	36,948	(4,963)	(13.4) %
TOTAL NET POSITION, BEGINNING OF YEAR	714,831	677,883	36,948	5.5 %
TOTAL NET POSITION, END OF YEAR	$ 746,816	$ 714,831	$ 31,985	4.5 %

Comparison between the years ended June 30, 2019 and 2018:

The Airport's operating revenues increased by $5,206 or 4.0%, primarily due to an increase in terminal space rental and revenue from services, partially offset by a decrease in auto parking. The increase in revenue from services was due to the addition of drop-off trip charge effective September 2018 and the increase of pick-up and drop-off trip fees effective March 2019 for ground transportation.



The Airport's operating expenses increased by $6,728 or 5.5%, primarily due to an increase in professional and specialized services, salaries and employee benefits, and depreciation and amortization.



For the year ended June 30, 2019, the Airport's nonoperating revenues decreased by $36 or 0.2%. An increase in interest income from investments was offset by an increase in interest expense and a decrease in bankruptcy settlement proceeds. Interest expense increased as a result of the early implementation of GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* that requires the interest expense incurred before the end of the construction period not be capitalized. Capital grant contributions decreased by $3,405 or 70.5% due to a decrease in cost reimbursements for federally funded construction projects.

Capital Assets

The Airport's capital assets as of June 30, 2019, amounted to $617,943, 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, 2019, was a decrease of $20,044 or 3.1%.

Capital Assets (Net of Accumulated Depreciation and Amortization):

	2019	2018	2019 vs 2018 $ Change	2019 vs 2018 % Change
CAPITAL ASSETS				
Land	$ 15,678	$ 15,678	$ --	0.0 %
Construction in progress	12,968	128,153	(115,185)	(89.9) %
Structures and improvements	537,174	446,187	90,987	20.4 %
Equipment	3,483	4,184	(701)	(16.8) %
Infrastructure	46,963	41,865	5,098	12.2 %
Intangible assets	1,677	1,920	(243)	(12.7) %
TOTAL CAPITAL ASSETS	$ 617,943	$ 637,987	$ (20,044)	(3.1) %

Major capital asset projects completed during the year ended June 30, 2019, included the following:

- Completion of Terminal Improvements at an approximate cost of $115,937.
- Completion of Paularino Gate Improvements at an approximate cost of $4,597.
- Completion of Taxiway B Resurfacing at an approximate cost of $5,049.

At June 30, 2019, the Airport was committed under contracts for construction projects in the amount of $19,797. Refer to Note 9 to the financial statements, Commitments, for more information.

Long-Term Debt Obligations

At June 30, 2019, the Airport had total bond obligations of $98,079. 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, 2019:

	2019	2018	2019 vs 2018 $ Change	2019 vs 2018 % Change
LONG-TERM DEBT OBLIGATIONS				
Airport Revenue Bonds, Series 2009A	$ --	$ 57,500	$ (57,500)	(100.0) %
Airport Revenue Bonds, Series 2009B	--	96,950	(96,950)	(100.0) %
Add: Premium/(Discount) on Bonds Payable	--	(2,251)	2,251	(100.0) %
Airport Revenue Refunding Bonds, Series 2019A	34,530	--	34,530	N/A
Airport Revenue Refunding Bonds, Series 2019B	50,500	--	50,500	N/A
Add: Premium/(Discount) on Bonds Payable	13,049	--	13,049	N/A
TOTAL LONG-TERM DEBT OBLIGATIONS	$ 98,079	$ 152,199	$ (54,120)	(35.6) %

During the year ended June 30, 2019, the decrease in the outstanding bonds was due to the early partial redemption, bond refunding, principal payments, and amortization of bond premiums/discounts. On May 14, 2019, the Airport issued the Airport Revenue Refunding Bonds, Series 2019A and 2019B in the principal amount of $85,030, with a premium of $13,404, to refund the 2009A and 2009B Bonds.

There were no major changes to the Airport's underlying debt ratings as compared to the previous year. The Airport maintains the following long-term underlying debt ratings (NR means not rated):

	Standard & Poor's	Moody's	Fitch
LONG-TERM DEBT RATINGS			
June 30, 2019			
Airport Revenue Refunding Bonds, Series 2019A and 2019B	AA-	NR	NR
June 30, 2018			
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 12, 2019, the Airport was awarded an Airport Improvement Program (AIP) grant from the Federal Aviation Administration (FAA) in the maximum amount of $886 to update airport master plan study. On September 23, 2019, the Airport was awarded another AIP grant from the FAA in the maximum amount of $2,140 for the zero emission vehicle/infrastructure project. Both of the grants are reimbursement type grants.

Airport Capital Improvement Program and Financial Planning:

The Airport completed its multi-year Terminal Improvement Project on-budget, and on-schedule, in February 2019. The project accomplished numerous safety, code compliance, aesthetic and infrastructure enhancements, and extended the useful lives of the terminal components.

Current major projects in progress are Terminals A and B Air Handlers, Terminal Utilities Infrastructure and Seat Power Improvement, Airport Operations Center, and the Airport Power Generation and Distribution Upgrades. These projects are expected for completion in the next one through three years.

Terminals A and B Air Handlers (AHU) originally installed in 1990 (five units) have been subject to age-related wear and tear. The project entails the replacement and installation of five new AHUs in Terminals A and B. Project completion is expected by the year ending June 30, 2020.

The Terminal Utilities Infrastructure will develop a utility infrastructure network for future concession sites throughout Terminals A, B, and C. After completion of the Terminal Utilities Infrastructure, the approved concession designs and buildout spaces will follow, and the phase I concessions are expected to be operational by the latter part of 2020. JWA plans to increase the number of power outlets at gate holdroom seating clusters, increasing availability of power outlets from 370 to 1600 seats, effectively providing a convenient power outlet at every other seat within a seating cluster.

The Airport Operations Center (AOC) will co-locate JWA's two major coordination hubs, Airport Police Services Control Center and the Maintenance Coordination Center, as well as redesign workspaces to facilitate key airport stakeholders' response during normal operations and emergency events. The AOC is designed with current industry-standard ergonomics for efficient workspace, enabling command and control from a single location. It also includes security network upgrade, new video management/storage system, the integration of next-generation Motorola radio console hardware, and 800 MHz system, bi-directional amplifier and fiber optic equipment, and an adjacent server room to house several of the critical airport systems. The completion target date is December 2020.

The Airport Power Generation and Distribution Upgrades will enhance the Airport electrical power quality, distribution, and reliability, as well as deliver clean and efficient on-site renewable energy, and reduce electrical demand on the public utility grid. The project provides for design and construction of a solar photovoltaic (PV) system capable of producing 2.8 Mega Watts of power that will feed a battery energy storage system to store 6 Mega Watt-hour of energy tied to the Airport Central Utility Plant (CUP). It also provides for upgrades to the CUP, recommissioning of the CUP controls system to accommodate the battery and solar PV system. The project completion date is June 2021.

Other capital projects slated for the next three years include Airfield Lighting and Signage Upgrade, and the Airport Exterior Lighting Improvements Project.

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 Administration, 3160 Airway Ave., Costa Mesa, CA 92626.

JOHN WAYNE AIRPORT
Statement of Net Position
June 30, 2019
(To the Nearest Thousand)

ASSETS		
Current assets:		
Cash (Note 2)	$	4,881
Pooled cash and investments with Treasurer (Note 2)		196,137
Cash equivalents/specific investments with Treasurer (Note 2)		8,760
Imprest cash (Note 2)		14
Accounts receivable		5,558
Pollution remediation obligation recoveries (Note 12)		256
Interest receivable		1,064
Due from other governmental agencies		2,234
Prepaid expenses		2,364
Restricted cash and investments with trustee (Note 2)		2,584
Restricted pooled cash and investments held for others (Note 2)		2,938
Restricted pooled cash and investments with Treasurer (Note 2)		1,408
Restricted Passenger Facility Charges (PFC) receivable		2,977
Restricted deposits in lieu of cash		5,388
Total current assets		236,563
Noncurrent assets:		
Specific investments with Treasurer (Note 2)		43,579
Restricted investments with trustee (Note 2)		9,551
Capital assets (Note 10):		
Land		15,678
Construction in progress		12,968
Structures and improvements		881,146
Equipment		12,977
Infrastructure - runways, taxiways and aprons		238,995
Intangible assets		3,337
Less: accumulated depreciation/amortization		(547,158)
Total capital assets, net		617,943
Total noncurrent assets		671,073
TOTAL ASSETS		907,636
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on bond refunding (Note 5)		2,641
Deferred outflows of resources related to pension (Note 3)		12,284
Deferred outflows of resources related to OPEB (Note 4)		343
TOTAL DEFERRED OUTFLOWS OF RESOURCES		15,268

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Net Position (Continued)
June 30, 2019
(To the Nearest Thousand)

LIABILITIES		
Current liabilities:		
Accounts payable	$	7,061
Retainage payable		452
Salaries and employee benefits payable		483
Interest payable		555
Unearned revenue		2,966
Due to County of Orange (Note 8)		2,227
Due to other governmental agencies		136
Compensated employee absences (Note 5)		1,067
Intangible asset obligations payable (Note 5)		87
Bonds payable, net (Note 5)		4,617
Deposits from others		8,326
Total current liabilities		27,977
Noncurrent liabilities:		
Pollution remediation obligation (Notes 5 and 12)		994
Compensated employee absences (Note 5)		816
Intangible asset obligations payable (Note 5)		72
Bonds payable, net (Note 5)		93,462
Arbitrage rebate payable (Note 5)		103
Net pension liability (Note 3)		46,028
Net OPEB liability (Note 4)		3,141
Total noncurrent liabilities		144,616
TOTAL LIABILITIES		172,593
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension (Note 3)		3,495
TOTAL DEFERRED INFLOWS OF RESOURCES		3,495
NET POSITION		
Net investment in capital assets		528,734
Restricted for debt service		2,029
Restricted for PFC (Note 1)		3,282
Restricted for capital projects - replacements and renewals		1,000
Unrestricted		211,771
TOTAL NET POSITION	$	746,816

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2019
(To the Nearest Thousand)

OPERATING REVENUES		
Terminal space rental	$	26,321
Auto parking		35,004
Concessions		32,577
Landing fees		15,554
Revenue from use of property		17,254
Revenue from services		7,840
Aircraft tiedown fees		2,286
Total operating revenues		136,836
OPERATING EXPENSES		
Professional and specialized services		44,330
Salaries and employee benefits		22,982
Other services and supplies		28,547
Taxes and other fees		154
Depreciation and amortization (Note 10)		32,248
Total operating expenses		128,261
Operating income		8,575
NONOPERATING REVENUES (EXPENSES)		
Interest income		8,214
Interest expense		(6,778)
Fines and penalties		272
Gain (loss) on disposition of capital assets, net		(23)
Other revenue (expense), net		(376)
PFC revenue (Note 1)		20,677
Total nonoperating revenues		21,986
INCOME BEFORE CAPITAL GRANT CONTRIBUTIONS		30,561
Capital grant contributions		1,424
CHANGE IN NET POSITION		31,985
TOTAL NET POSITION, BEGINNING OF YEAR		714,831
TOTAL NET POSITION, END OF YEAR	$	746,816

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

Statement of Cash Flows
For the Year Ended June 30, 2019
(To the Nearest Thousand)

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	135,792
Payments to suppliers for goods and services		(72,959)
Payments to employees		(22,221)
Payments to County of Orange		(320)
Payments for taxes and other fees		(154)
Other receipts		410
Net cash provided by operating activities		40,548
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		(15,034)
Principal payments on long-term debt		(22,170)
Payments for refunding bonds		(36,823)
Interest paid on long-term debt		(7,925)
Bond issuance costs paid on long-term debt		(554)
Proceeds from capital grant contributions		3,292
Proceeds from sale of capital assets		30
Receipts from PFC		20,727
Net cash used in capital and related financing activities		(58,457)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of investments, net		(7,929)
Interest received on investments		7,952
Net cash provided by investing activities		23
NET DECREASE IN CASH AND CASH EQUIVALENTS		(17,734)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		234,456
CASH AND CASH EQUIVALENTS, END OF YEAR	$	216,722

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2019
(To the Nearest Thousand)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$	8,575
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization		32,248
Fines and penalties		272
Other revenue		26
(INCREASES) DECREASES IN:		
Accounts receivable		(797)
Due from other governmental agencies		59
Prepaid expenses		(214)
Restricted deposits in lieu of cash		(48)
Deferred outflows of resources related to pension		(3,423)
Deferred outflows of resources related to OPEB		(144)
INCREASES (DECREASES) IN:		
Accounts payable		(212)
Retainage payable		24
Salaries and employee benefits payable		25
Unearned revenue		(751)
Due to County of Orange		(320)
Due to other governmental agencies		(63)
Compensated employee absences		(79)
Deposits from others		565
Arbitrage rebate payable		103
Net pension liability		7,954
Net OPEB liability		140
Deferred inflows of resources related to pension		(3,290)
Deferred inflows of resources related to OPEB		(102)
Net cash provided by operating activities	$	40,548
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash	$	4,881
Pooled cash and investments with Treasurer		196,137
Specific investments with Treasurer		8,760
Imprest cash		14
Restricted investments with trustee		2,584
Restricted pooled cash and investments held for others		2,938
Restricted pooled cash and investments with Treasurer		1,408
TOTAL CASH AND CASH EQUIVALENTS	$	216,722
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Acquisition of capital assets with accounts payable	$	2,741
Acquisition of capital assets with retainage payable		421
Change in fair value of investments not considered cash or cash equivalents		275
Accrued capital grant contribution receivable		1,839
Loss on disposition of capital assets		23
Amortization of bond premium		355
Amortization of deferred charge on refunding		68

See accompanying notes to financial statements.

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

<u>Description of Reporting Entity</u>

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 will 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, and parking management, 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 2 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.

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.

Specific Investments with Treasurer

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

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

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 $1,163,882. 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, performance incentive plan 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.

Pensions

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.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Orange County Employees Retirement System (OCERS) and the Extra-Help Defined Benefit Plan and additions to/deductions to OCERS and the Extra-Help Defined Benefit Plan fiduciary net position have been determined on the same basis as they are reported by OCERS and the Extra-Help Defined Benefit Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of County's Retiree Medical Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Retiree Medical Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2019, the Airport reported restricted net position of $6,311 for debt service, Passenger Facility Charges (PFC) and replacements and renewals for capital projects, of which $3,282 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.

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

Passenger Facility Charges (continued)

The FAA approved the Airport's PFC application to collect $4.50 (not in thousand) 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, 2019, $20,677 PFC revenue was reported and $36,268 was expended on approved PFC projects.

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 34%, 16%, and 16% of market share during the year ended June 30, 2019.

Note 2 – Cash and Investments

The Airport's investment policy guidelines allow for the same types of investments as the Board approved IPS. Investments maintained by trustees are governed by the related bond indentures.

Note 2 – Cash and Investments (Continued)

Total Airport cash and investments at fair value as of June 30, 2019, was as follows:

Cash and pooled cash and investments:		
Cash on hand	$	4,895
Pooled cash and investments, restricted		4,346
Pooled cash and investments		196,137
Total cash and pooled cash and investments		205,378
Deposits and investments:		
Specific Investments with Treasurer		52,339
Deposits with trustee, restricted		12,072
Investments with trustee		63
Total deposits and investments		64,474
Total cash and investments	$	269,852

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.

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 $52,339 at June 30, 2019, of which $8,760, 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.

Note 2 – Cash and Investments (Continued)

Deposits and Investments with Trustee

Investments with trustee represent amounts held by a trustee bank that are restricted for use in either acquiring certain assets or servicing long-term debt of the Airport as required by the bond indentures. The trustee as fiscal agent is mandated by the bond indentures as to the government obligations in which the debt issuance proceeds can be invested. Investments with trustee are stated at fair value based on quoted market prices provided by the trustee's independent valuation service. Deposits held in the money market deposit accounts are insured by Federal Depository Insurance Corporation (FDIC) up to $250.

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, 2019, the WAM for the Pool, specific investments with Treasurer, and investments with trustee approximated 325 days, 78 days, and 1 day, 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.

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.

Note 2 – Cash and Investments (Continued)

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%	5 Years	397 Days
Municipal Debt	20% Total, no more than 5% in one issuer except 10%-County of Orange	3 Years	397 Days
Medium-Term Notes	20% Total, no more than 5% in one issuer	2 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	20% Total, no more than 5% in one issuer	18 Months	397 Days
State of California Local Agency Investment Fund	State limit (currently $65 million per pool)	N/A	N/A
Repurchase Agreements	20% Total, no more than 10% in one issuer	180 Days	1 Year
Money Market Mutual Funds (MMMF)	20% Total, no more than 10% in one MMMF account	N/A	N/A
Joint Powers Agency (JPA) Investment Pools	20% Total, no more than 10% in one JPA pool	N/A	N/A
Supranationals	30% Total, no more than 5% in one issuer	5 Years	397 Days

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.

Note 2 – Cash and Investments (Continued)

Concentration of Credit Risk (Continued)

At June 30, 2019, 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	$ 28,559	$ 28,615	0.18	AA	54.57%
U.S. Treasuries	23,776	23,865	0.25	AA	45.42%
Money Market Mutual Funds	4	4	0.00	AAA	0.01%
Total	$ 52,339	$ 52,484	0.21 (2)		100.00%

Investments with Trustee:	Fair Value	Principal	WAM (Years)	Rating (1)	% of Total
Money Market Mutual Funds	$ 63	$ 63	0.00	AAA	100.00%
Total	$ 63	$ 63	0.00 (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.

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 CAFR. The CAFR is available by accessing the Auditor-Controller’s website at http://www.ac.ocgov.com.

Note 2 – Cash and Investments (Continued)

Fair Value Measurements (Continued)

As of June 30, 2019, 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	$ 28,559	$ --	$ 28,559	$ --
U.S. Treasuries	23,776	--	23,776	--
Total investments by fair value level	52,335	$ --	$ 52,335	$ --
Investments not subject to fair value hierarchy:				
Money Market Mutual Funds	4			
Total	$ 52,339			
With Trustee:				
Investments not subject to fair value hierarchy:				
Money Market Mutual Funds	$ 63			
Total	$ 63			

Note 3 – Defined Benefit Pension Plan

Plan Description

All full-time employees of the Airport participate in OCERS, which is a cost-sharing multiple-employer public employee retirement system.

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.

Note 3 – Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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.

Effective July 1, 2005, as part of collective bargaining agreements with County employees, most General members who work for the County (approximately 14,000) became eligible for the retirement benefit formula of 2.7% of the member's "final compensation" for each year of service rendered at age 55. In collective bargaining agreements with General members, the employee associations agreed to pay the increased retirement costs related to the difference between the prior retirement benefit formulas and the new 2.7% at age 55 formula, as well as the annual amortization of the unfunded liability created by the retroactive application of the increased benefit. Due to the passage of the Public Employees' Pension Reform Act (PEPRA) of 2013, most new employees (non-safety) hired on or after January 1, 2013 receive an annual annuity equal to a retirement benefit formula of 1.62% of the member's "final compensation" for each year of service rendered at age 65. The 1.62% at age 65 retirement formula includes a voluntary defined contribution component with an employer match.

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. 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.

Employer contributions are based on what is needed to properly fund the system. The Retirement Law, however, does allow employers and employees to negotiate some variation in who pays the contributions. OCERS' responsibility is to make certain the total required contribution is paid, regardless of how the employers and employees share the cost. For the year ended June 30, 2019, the employer's contribution rate as a percentage of covered payroll for general members was 33.66%. The Airport's total contribution to OCERS for the year ended June 30, 2019, was $3,576.

Note 3 – Defined Benefit Pension Plan (Continued)

<u>Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

For the year ended June 30, 2019, the County reported a liability of $4,919,675 for its proportionate share of the net pension liability, of which the Airport's allocated share of the County's net pension liability totaled $46,022. The County's net pension liability was measured as of December 31, 2018, 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, 2019, the Airport recognized pension expense of $5,158, 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, 2019, 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	$ 4,125	$ --
Difference Between Expected and Actual Experience	82	2,942
Changes of Assumptions	3,812	552
Changes in Proportion and Differences Between Airport Contributions and Proportionate Share of Contributions	220	1
Contributions Subsequent to Measurement Date	2,010	--
Prepaid Pension Contribution	2,035	--
Total	$ 12,284	$ 3,495

$2,010 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, 2020.

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, $2,035, 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
2020	$ 1,024
2021	326
2022	928
2023	2,553
2024	(87)
Thereafter	--

For additional details on the defined benefit pension plan, actuarial assumptions, the net pension liability, and the required supplementary information, as well as other retirement plans, 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 4.00% of its payroll for the year ended June 30, 2019. The Airport's contribution was $539, 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, 2019, the County reported a liability of $380,581 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 $3,141. The County's net OPEB liability was measured as of December 31, 2018, 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, 2019, the Airport recognized OPEB expense of $341, which represents the change in the net OPEB 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 OPEB liability to be recognized in future periods in a systematic and rational manner. At June 30, 2019, 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 OPEB Plan Investments	$ 92	$ --
Changes in Proportion and Differences Between Airport Contributions and Proportionate Share of Contributions	30	--
Contributions Subsequent to Measurement Date	221	--
Total	$ 343	$ --

$221 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, 2020.

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
2020	$ 20
2021	20
2022	20
2023	48
2024	4
Thereafter	10

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.

Note 5 – Long-Term Obligations (Continued)

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of $233,115, with an original issue net premium of $288 and interest rates ranging from 3.00% to 5.75%. The 2009A and 2009B Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds and pay costs relating to the issuance of the bonds. The AIP consist of numerous direct improvements to the Airport facilities such as construction of Terminal C, Parking Structure C and two commuter/regional holdrooms at the north and south ends of the extended Terminal. On April 30, 2019, the Airport redeemed $13,895 of the remaining callable 2009B Bonds maturing in 2034, together with the Airport's cash contribution of $26,105, further paid down 2009A and 2009B Bonds, therefore reducing the issuance of the series 2019A and 2019B Airport Refunding Bonds to $85,030. As of June 30, 2019, the total outstanding principal amount of the 2009A and 2009 Bonds was $0.

Airport Revenue Refunding Bonds, Series 2019A and 2019B

On May 14, 2019, the Airport issued the Airport Revenue Refunding Bonds, Series 2019A and 2019B (2019A and 2019B Bonds) in the principal amount of $85,030, with a premium of $13,404 and an interest rate of 5.00%. The 2019A and 2019B Bonds were issued to refund and defease the 2009A and 2009B Bonds, fund a debt service reserve subaccount for the bonds, and pay certain expenses in connection with the issuance of the bonds. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2,709. This difference, reported in the accompanying financial statements as deferred outflows of resources, is being charged to operations using the effective interest method. The Airport completed the refunding to reduce its debt service payments over the next 11 years by $81,478 and obtain an economic gain (the difference of the present values of the old and new debt service payments) of $38,100. As of June 30, 2019, the outstanding principal amount, including net premium, of the 2019A and 2019B Bonds were $40,434 and $57,645, respectively, and the outstanding interest amounts were $9,644 and $11,636, respectively.

The 2009 and 2019 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. In the event of default, the trustee may exercise any remedies available under the bond indentures and under state and federal law. The 2019A and 2019B Bonds are payable through July 2030. 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, 2019, the total debt service principal and interest paid and total net revenues were $16,228 and $58,971 respectively. The total net revenues include $9,744 available PFC revenue for the year ended June 30, 2019.

Note 5 – Long-Term Obligations (Continued)

Revenue bonds outstanding and related activity for the year ended June 30, 2019, were as follows:

	Balance at July 1, 2018	Additions	Deductions	Balance at June 30, 2019	Due in 1 year
Airport Revenue Bonds					
Series 2009A	$ 57,500	$ --	$ (57,500)	$ --	$ --
Bond Premium/(Discount)	(1,065)	--	1,065	--	--
Airport Revenue Bonds					
Series 2009B	96,950	--	(96,950)	--	--
Bond Premium/(Discount)	(1,186)	--	1,186	--	--
Airport Revenue Refunding Bonds					
Series 2019A	--	34,530	--	34,530	540
Bond Premium/(Discount)	--	6,046	(142)	5,904	1,073
Airport Revenue Refunding Bonds					
Series 2019B	--	50,500	--	50,500	1,410
Bond Premium/(Discount)	--	7,358	(213)	7,145	1,594
Total	$ 152,199	$ 98,434	$ (152,554)	$ 98,079	$ 4,617

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

	2019A Bonds		2019B Bonds		
Year Ending June 30,	Principal	Interest	Principal	Interest	Total
2020	$ 540	$ 1,075	$ 1,410	$ 1,557	$ 4,582
2021	2,980	1,625	8,275	2,248	15,128
2022	3,130	1,472	8,685	1,824	15,111
2023	3,290	1,312	3,460	1,520	9,582
2024	3,455	1,143	3,640	1,343	9,581
2025-2029	18,510	2,952	21,230	2,973	45,664
2030-2034	2,625	65	3,800	171	6,662
Total	$ 34,530	$ 9,644	$ 50,500	$ 11,636	$ 106,310

Note 5 – Long-Term Obligations (Continued)

Other Long-term Liabilities

Other long-term liability activities for the year ended June 30, 2019, were as follows:

	Balance at July 1, 2018	Additions	Deductions	Balance at June 30, 2019	Due in 1 year
Compensated Employee Absences	$ 1,962	$ 1,980	$ (2,059)	$ 1,883	$ 1,067
Arbitrage Rebate Payable	--	103	--	103	--
Intangible Asset Obligations Payable	47	227	(115)	159	87
Pollution Remediation Obligation	994	--	--	994	--
Total	$ 3,003	$ 2,310	$ (2,174)	$ 3,139	$ 1,154

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, 2019, were as follows:

	Cost of Leased Property	Accumulated Depreciation	Total Carrying Value of Leased Property
Structures and improvements	$ 90,265	$ (29,446)	$ 60,819
Land	2,541	--	2,541
Total	$ 92,806	$ (29,446)	$ 63,360

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2019, are as follows:

Year Ending June 30,	Future Minimum Rent
2020	$ 45,701
2021	25,594
2022	5,803
2023	2,298
2024	1,989
2025-2029	6,434
2030-2034	35
Total	$ 87,854

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 $34,222 for the year ended June 30, 2019.

Note 7 – Commitments under Operating Leases

Lease expense was $267 for the year ended June 30, 2019. As of June 30, 2019, there was $305 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 $23,570 for the year ended June 30, 2019.

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, 2019, was as follows:

Due To	Due From		Amount
General Fund	Airport	$	1,859
Internal Service Funds	Airport		267
Other Governmental Funds	Airport		101
Total Due To County of Orange		$	2,227

Note 9 – Commitments

At June 30, 2019, the Airport was committed under contracts for the following construction projects:

Airport Operations Center	$	9,428
Terminals Air Handlers Replacement		3,306
Parking Structure C, Phase 2		2,652
Airport Power Generation and Distribution Upgrades		1,819
Others		2,592
Total	$	19,797

Note 10 – Changes in Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	Balance at June 30, 2018	Additions	Deductions	Balance at June 30, 2019
Capital assets, not depreciated/amortized:				
Land	$ 15,678	$ --	$ --	$ 15,678
Construction in progress	128,153	11,727	(126,912)	12,968
Total capital assets, not depreciated/amortized	143,831	11,727	(126,912)	28,646
Capital assets, depreciated/amortized:				
Structures and improvements	766,346	117,188	(2,388)	881,146
Equipment	14,840	298	(2,161)	12,977
Infrastructure	229,348	9,647	--	238,995
Intangible assets	3,028	309	--	3,337
Total capital assets, depreciated/amortized	1,013,562	127,442	(4,549)	1,136,455
Less accumulated depreciation/amortization:				
Structures and improvements	(320,159)	(26,210)	2,397	(343,972)
Equipment	(10,656)	(937)	2,099	(9,494)
Infrastructure	(187,483)	(4,549)	--	(192,032)
Intangible assets	(1,108)	(552)	--	(1,660)
Total accumulated depreciation/amortization	(519,406)	(32,248)	4,496	(547,158)
Total capital assets depreciated/amortized, net	494,156	95,194	(53)	589,297
Total capital assets, net	$ 637,987	$ 106,921	$ (126,965)	$ 617,943

Total depreciation and amortization expense for the year ended June 30, 2019, was $32,248.

Note 11 – New Accounting Pronouncements

The following summarizes recent GASB pronouncements implemented or effective in the year ended June 30, 2019:

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. The Airport implemented this Statement in the year ended June 30, 2019; however, this Statement did not have any impact on the Airport's financial statements.

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. The Airport implemented this Statement in the year ended 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. 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. The Airport opted for an early implementation in the year ended June 30, 2019.

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 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 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.

In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. This statement provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. This statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The requirements of this statement are effective for reporting periods beginning after December 15, 2020, which requires the Airport to implement this statement in the year ending June 30, 2022.

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.

Note 12 – Pollution Remediation Obligation (Continued)

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, 2019, 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, 2019.

The estimated pollution remediation obligation as of June 30, 2019, is:

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

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 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 then ended June 30, 2019, and the related notes to the financial statements and have issued our report thereon dated December 11, 2019. 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, 2019.

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.

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.

Eide Bailly LLP

Laguna Hills, California
December 11, 2019