

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

Financial Statements
and Independent Auditor's Reports

For the Year Ended June 30, 2023



JOHN WAYNE AIRPORT
Financial Statements

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Independent Auditor's Report

To the Board of Supervisors
County of Orange, California

Report on the Audit of the Financial Statements

Opinion

We have audited 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, 2023, and the related notes to the financial statements, which collectively comprise the Airport's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Airport, as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Airport and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, 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, 2023, 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.

Adoption of New Accounting Standard

As discussed in Note 2 to the financial statements, the Airport has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Agreements*, for the year ended June 30, 2023. Accordingly, a restatement has been made to the Airport's net position as of July 1, 2022, to restate beginning net position. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Airport's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 basic financial statements. Such information is the responsibility of management and, 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 20, 2023, 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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Laguna Hills, California
December 20, 2023

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(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, 2023. 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 \$903,259 (net position) at June 30, 2023. Of this amount, \$302,020 (unrestricted net position) may be used to meet the ongoing obligations of the Airport, \$30,663 (restricted net position) was externally restricted for specific purposes, and \$570,576 was the net investment in capital assets.
- Total net position increased by \$85,267 or 10.4 % for the year ended June 30, 2023. This increase consists of operating income of \$11,238, capital contributions and transfers of \$213, and nonoperating revenues of \$73,816.
- Noncurrent liabilities decreased by \$37,417 or 45.0% for the year ended June 30, 2023, primarily due to a decrease in bonds payable related to the defeasance of the Airport's bonds.

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 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 are presented in this statement, regardless of when cash is received or paid.

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Management's Discussion and Analysis (Unaudited)
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(To the Nearest Thousand)

- 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, 2023, the Airport's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$903,259.

Net Position:

	2023	2022	2023 vs 2022 \$ Change	2023 vs 2022 % Change
ASSETS				
Current and other assets	\$ 495,035	\$ 460,771	\$ 34,264	7.4 %
Capital assets	574,189	598,580	(24,391)	(4.1) %
TOTAL ASSETS	<u>1,069,224</u>	<u>1,059,351</u>	<u>9,873</u>	0.9 %
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>11,410</u>	<u>9,573</u>	<u>1,837</u>	19.2 %
LIABILITIES				
Current liabilities	35,740	42,344	(6,604)	(15.6) %
Noncurrent liabilities	45,817	83,234	(37,417)	(45.0) %
TOTAL LIABILITIES	<u>81,557</u>	<u>125,578</u>	<u>(44,021)</u>	(35.1) %
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>95,818</u>	<u>125,354</u>	<u>(29,536)</u>	(23.6) %
NET POSITION				
Net investment in capital assets	570,576	537,549	33,027	6.1 %
Restricted net position	30,663	33,835	(3,172)	(9.4) %
Unrestricted net position	302,020	246,608	55,412	22.5 %
TOTAL NET POSITION	<u>\$ 903,259</u>	<u>\$ 817,992</u>	<u>\$ 85,267</u>	10.4 %

At June 30, 2023, the largest component of the Airport's net position (\$570,576 or 63.2% of total net position) was its net investment in capital assets (e.g., land, structures and improvements, equipment, infrastructure, construction in progress, intangible assets, lease equipment and subscription-based information technology arrangements (SBITA)), 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

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

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, 2023, an additional component of the Airport's net position (\$30,663 or 3.4% of total net position) represents resources that are subject to external usage restrictions such as Passenger Facility Charges (PFC). The remaining net position balance of \$302,020 (33.4% of total net position) is unrestricted and may be used to meet the Airport's ongoing obligations.

Comparison between the years ended June 30, 2023 and 2022:

The Airport's total assets increased by \$9,873 or 0.9%. Current and other assets increased by \$34,264 or 7.4%, primarily due to an increase in pooled cash and investments with Treasurer and partially offset by a decrease in cash equivalents/specific investments with Treasurer, specific investments with Treasurer, and restricted cash equivalents/deposits with trustee. Capital assets decreased by \$24,391 or 4.1%.

The Airport's total liabilities decreased by \$44,021 or 35.1%. Current liabilities decreased by \$6,604 or 15.6%, primarily due to a decrease in interest payable and bonds payable, partially offset by an increase in accounts payable. Noncurrent liabilities decreased by \$37,417 or 45.0%, primarily due to a decrease in bonds payable and partially offset by an increase in net pension liability.

The total deferred outflows of resources increased by \$1,837 or 19.2%, primarily due to an increase in deferred outflows of resources related to pension and decrease in deferred charge on refunding.

The total deferred inflows of resources decreased by \$29,536 or 23.6%, primarily due to a decrease in deferred inflows of resources related to pension and leases.

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

During the year ended June 30, 2023, the Airport's net position increased by \$85,267 or 10.4%.

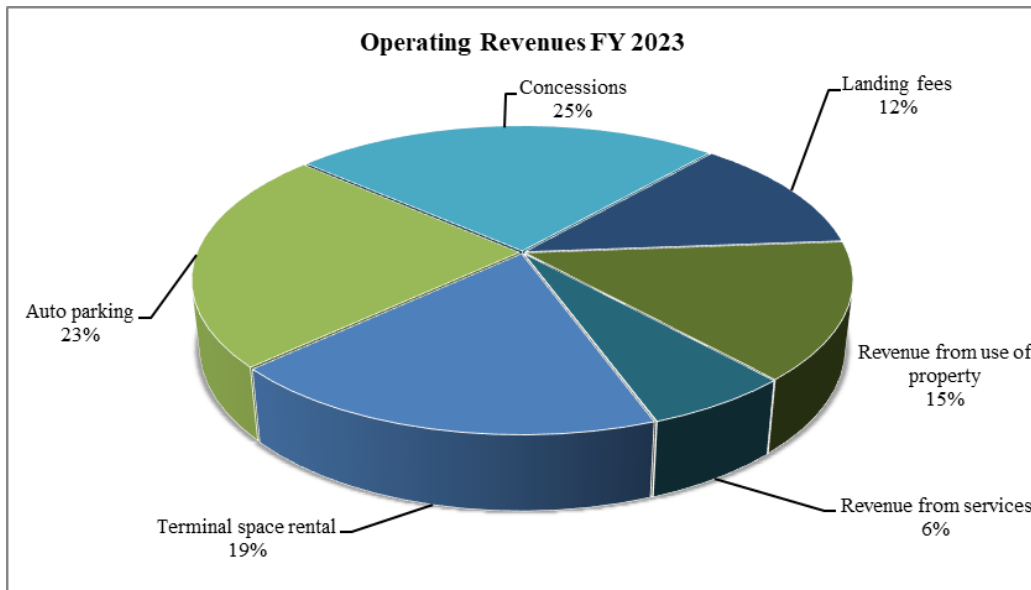
Revenues, Expenses, and Change in Net Position:

	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u> <u>\$ Change</u>	<u>2023 vs 2022</u> <u>% Change</u>
OPERATING REVENUES				
Terminal space rental	\$ 30,163	\$ 27,838	\$ 2,325	8.4 %
Auto parking	38,006	32,772	5,234	16.0 %
Concessions	40,386	26,602	13,784	51.8 %
Landing fees	20,053	23,475	(3,422)	(14.6) %
Revenue from use of property	23,487	21,583	1,904	8.8 %
Revenue from services	9,963	8,766	1,197	13.7 %
Aircraft tiedown fees	25	10	15	150.0 %
Total operating revenues	<u>162,083</u>	<u>141,046</u>	<u>21,037</u>	14.9 %
OPERATING EXPENSES				
Professional and specialized services	52,730	45,430	7,300	16.1 %
Salaries and employee benefits	18,042	18,499	(457)	(2.5) %
Services and supplies	45,661	33,016	12,645	38.3 %
Taxes and other fees	192	153	39	25.5 %
Depreciation and amortization	34,220	34,244	(24)	(0.1) %
Total operating expenses	<u>150,845</u>	<u>131,342</u>	<u>19,503</u>	14.8 %
Operating income	<u>11,238</u>	<u>9,704</u>	<u>1,534</u>	15.8 %
NONOPERATING REVENUES (EXPENSES)				
Interest income	12,260	840	11,420	1359.5 %
Net decrease in the fair value of investments	(3,736)	(3,694)	(42)	1.1 %
Interest expense	(487)	(1,473)	986	(66.9) %
Fines and penalties	410	399	11	2.8 %
Gain (loss) on disposition of capital assets, net	(2,096)	56	(2,152)	(3842.9) %
Loss on debt defeasance	(1,189)	--	(1,189)	N/A
Intergovernmental revenues	48,359	20,170	28,189	139.8 %
Other expense, net	(2,581)	181	(2,762)	(1526.0) %
PFC revenue	22,876	20,580	2,296	11.2 %
Total nonoperating revenues	<u>73,816</u>	<u>37,059</u>	<u>36,757</u>	99.2 %
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	85,054	46,763	38,291	81.9 %
Capital contributions	--	59	(59)	(100.0) %
Capital grant contributions	225	601	(376)	(62.6) %
Transfers from (to) County of Orange	(12)	5	(17)	(340.0) %
CHANGE IN NET POSITION	85,267	47,428	37,839	79.8 %
TOTAL NET POSITION, BEGINNING OF YEAR	817,992	770,564	47,428	6.2 %
TOTAL NET POSITION, END OF YEAR	<u>\$ 903,259</u>	<u>\$ 817,992</u>	<u>\$ 85,267</u>	10.4 %

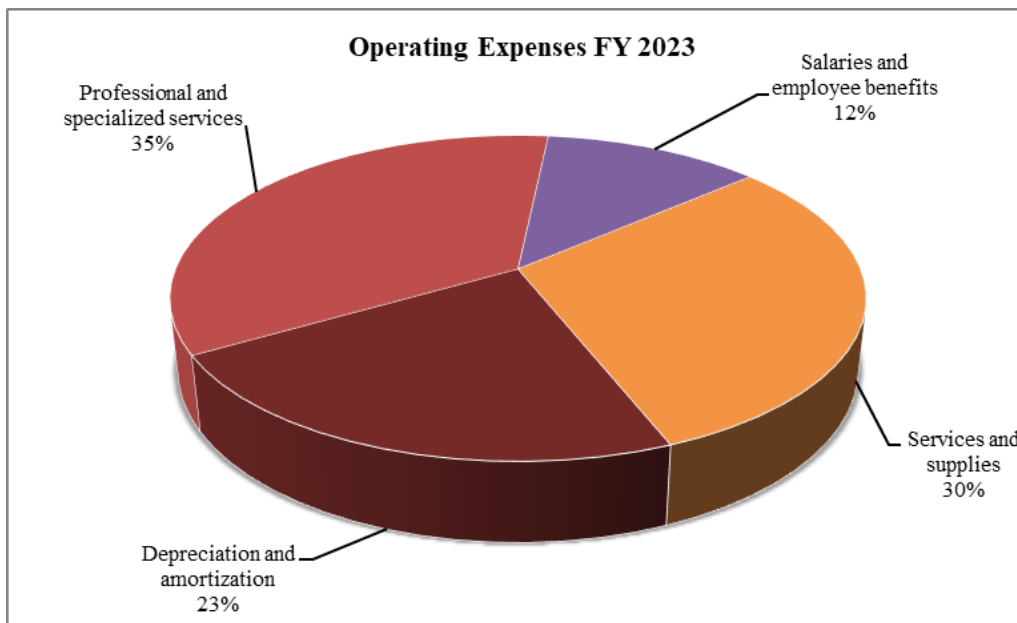
JOHN WAYNE AIRPORT
 Management's Discussion and Analysis (Unaudited)
 For the Year Ended June 30, 2023
 (To the Nearest Thousand)

Comparison between the years ended June 30, 2023 and 2022:

The Airport's operating revenues increased by \$21,037 or 14.9%, primarily due to an increase in terminal space rental, auto parking, and concessions. The Airport's operating revenues were positively affected as a result of the continued passenger recovery from the COVID-19 pandemic, and Fiscal Year 2021-2022 included the final COVID-19 concession rent abatement.



The Airport's operating expenses increased by \$19,503 or 14.8%, primarily due to an increase in professional and specialized services and services and supplies.



JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

For the year ended June 30, 2023, the Airport's nonoperating revenues increased by \$36,757 or 99.2%, primarily due to an increase in interest income and intergovernmental revenues, partially offset by a decrease in other revenue. Contributions and transfers decreased by \$452 or 68.0%, primarily due to a decrease in capital grant contributions.

Capital Assets

The Airport's capital assets as of June 30, 2023, amounted to \$574,189, net of accumulated depreciation and amortization. The investment in capital assets includes land, construction in progress, structures and improvements, equipment, infrastructure (runways, taxiways and aprons), intangible assets, lease equipment and SBITA. The total change in capital assets for the year ended June 30, 2023, was a decrease of \$24,391 or 4.1%.

Capital Assets (Net of Accumulated Depreciation and Amortization):

	<u>2023</u>	<u>2022</u>	<u>2023 vs 2022</u> <u>\$ Change</u>	<u>2023 vs 2022</u> <u>% Change</u>
CAPITAL ASSETS				
Land	\$ 15,678	\$ 15,678	\$ --	0.0 %
Construction in progress	35,704	26,409	9,295	35.2 %
Structures and improvements	481,187	511,286	(30,099)	(5.9) %
Equipment	8,304	7,786	518	6.7 %
Infrastructure	31,896	35,784	(3,888)	(10.9) %
Intangible assets	1,396	1,637	(241)	(14.7) %
Lease equipment	10	--	10	100.0 %
SBITA	14	--	14	100.0 %
TOTAL CAPITAL ASSETS	<u>\$ 574,189</u>	<u>\$ 598,580</u>	<u>\$ (24,391)</u>	<u>(4.1) %</u>

Additional information on the Airport's capital assets can be found in Note 10 to the financial statements, Changes in Capital Assets.

At June 30, 2023, the Airport was committed under major contracts for an improvement project, design and build of a vehicle, and pavement repair in the amount of \$48,873. Refer to Note 9 to the financial statements, Commitments, for more information.

Other Potentially Significant Matters

Airport Capital Improvement Program and Financial Planning:

On June 6, 2023, the Orange County Board of Supervisors approved John Wayne Airport's 2023 Capital Improvement Program (CIP) with an estimated cost of \$711,401. The CIP was developed to establish project priority and ensure adequate resources are available over the next three years.

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

The CIP includes the following major projects:

- Airport Power Generation and Distribution Upgrades: This project consists of refeeding of the 12 kV distribution and the replacement of the medium voltage switchgear, five substations, enhancements to the Central Utility Plant (CUP), and upgrade of the remaining aging electrical equipment and systems in the terminal complex and remote buildings on Airport property.
- Baggage Handling System (BHS) Upper-Level Controls Replacement: The project consists of upgrades and improvements of the BHS Upper-Level Controls in all terminals.
- BHS Improvements to Terminals A and B: This project will replace the existing inbound and outbound BHS in Terminals A and B.
- Common Use Passenger Processing System (CUPPS) Upgrades: The project will replace the existing CUPPS in all terminals, which includes computer systems, software, kiosks, servers, flight displays information systems, and screens at the ticket lobbies and gates.
- Facility Accessibility Improvements: The project consists of accessibility improvements and remodeling of 12 restrooms in Terminals A and B, the addition of lactation pods and adult changing stations, providing accessibility improvements to exterior landside paths of travel adjacent to the terminal, and other accessibility improvements to the terminal complex, screening and checkpoint areas.
- Facility Security Improvements: The project will replace the existing aging analog security cameras with modern enhanced digital security cameras that will allow for enhanced features and capabilities within the terminal, airside, and landside areas.
- Main Street Parking Lot Improvement and Electric Vehicle (EV) Charging Implementation: The project consists of the installation of EV charging stations for airport shuttle buses and the modification of vehicular pathways and aisles, including the ingress and egress points at Main Street Parking Lot.
- Taxiways A, D, and E Reconstruction: The project consists of the reconstruction and realignment of Taxiways A, D, and E, including the relocation of the compass rose and the vehicle service road adjacent to Taxiway A to ensure that the service road meets the required safety clearances.
- Terminal Roof and Covered Walkway Replacement: The project consists of the repair and replacement of the existing terminal roof, including the standing seam roof components, and the replacement of the terminal-covered walkways.

JOHN WAYNE AIRPORT
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

- Vertical Conveyance Systems Improvements: The project will replace the existing original escalators and elevators in the terminal complex and parking structures.

COVID-19 Related Federal Assistance:

Coronavirus Aid, Relief, and Economic Security (CARES) Act

On May 21, 2020, the Airport received an allocation of \$44,910 of Coronavirus Aid, Relief, and Economic Security (CARES) grant funds for Airport operating costs and debt service payments. The Airport claimed operating expenses and debt service payments of \$4,782 for the year ended June 30, 2020, \$10,077 for the year ended June 30, 2021, \$13,676 for the year ended June 30, 2022, and claimed the remaining \$16,375 for the year ended June 30, 2023.

Coronavirus Response and Relief Supplemental Act (CRRSA)

On December 27, 2020, the President signed the Consolidated Appropriation Act 2021, which provides \$2 billion in grants for airports under the CRRSA. On April 13, 2021, John Wayne Airport received a CRRSA grant award of \$11,045, of which \$1,104 was for eligible airport concessions rent relief and \$9,941 was for reimbursement of airport operating expenses. The Airport claimed operating expenses and debt service payments of \$11,038 for the year ended June 30, 2021 and claimed the remaining \$7 for the year ended June 30, 2022. The Airport claimed the entire concessions rent relief of \$1,104 for the year ended June 30, 2023.

American Rescue Plan Act (ARPA)

On March 11, 2021, the President signed the American Rescue Plan Act of 2021, which provides \$8 billion in economic relief to airports to prevent, prepare for, and respond to the COVID-19 pandemic. On August 17, 2021, John Wayne Airport received the general grant award of \$33,582 for airport operating expenses and debt service payments. On January 11, 2022, the Airport received the ARPA concession relief grant award of \$4,415. The Airport claimed operating expenses and debt service payments of \$30,485 and the entire concessions rent relief of \$4,415 for the year ended June 30, 2023.

Request for Information

For questions and additional information provided in the report, please refer to the Airport's website at <http://www.ocair.com>.

JOHN WAYNE AIRPORT
Statement of Net Position
June 30, 2023
(To the Nearest Thousand)

ASSETS

Current assets:

Cash (Note 3)	\$	120
Pooled cash and investments with Treasurer (Note 3)		341,422
Imprest cash (Note 3)		14
Accounts receivable		6,466
Pollution remediation obligation recoveries (Note 12)		256
Interest receivable		1,945
Leases receivable (Note 7)		14,283
Due from County of Orange (Note 8)		14
Due from other governmental agencies		8,134
Prepaid expenses		1,520
Restricted pooled cash and investments held for others (Note 3)		1,188
Restricted pooled cash and investments with Treasurer (Note 3)		27,263
Restricted Passenger Facility Charges (PFC) receivable		3,399
Deposits in lieu of cash		6,668
Total current assets		<u>412,692</u>

Noncurrent assets:

Leases receivable (Note 7)	82,343
Capital assets (Note 10):	
Land	15,678
Construction in progress	35,704
Structures and improvements	934,758
Equipment	19,318
Infrastructure - runways, taxiways and aprons	240,224
Intangible assets	4,795
Lease equipment (Note 7)	34
SBITA asset (Note 13)	20
Less: accumulated depreciation/amortization	<u>(676,342)</u>
Total capital assets, net	<u>574,189</u>
Total noncurrent assets	<u>656,532</u>

TOTAL ASSETS 1,069,224

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources related to pension (Note 4)	10,963
Deferred outflows of resources related to OPEB (Note 5)	<u>447</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>11,410</u>

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Net Position (Continued)
June 30, 2023
(To the Nearest Thousand)

LIABILITIES

Current liabilities:

Accounts payable	\$	11,225
Retainage payable		120
Salaries and employee benefits payable		731
Unearned revenue		12,062
Due to County of Orange (Note 8)		2,389
Due to other governmental agencies		88
Compensated employee absences (Note 6)		827
Financed purchase liability (Note 6)		331
Lease liability (Notes 6 and 7)		16
SBITA liability (Notes 6 and 13)		6
Intangible asset obligations payable (Note 6)		89
Deposits from others		7,856
Total current liabilities		35,740

Noncurrent liabilities:

Pollution remediation obligation (Notes 6 and 12)		994
Compensated employee absences (Note 6)		312
SBITA liability (Notes 6 and 13)		7
Intangible assets obligations payable (Note 6)		89
Net pension liability (Note 4)		42,203
Net OPEB liability (Note 5)		2,212
Total noncurrent liabilities		45,817

TOTAL LIABILITIES 81,557

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources related to pension (Note 4)		1,463
Deferred inflows of resources related to OPEB (Note 5)		375
Deferred inflows of resources related to leases (Note 7)		93,980
TOTAL DEFERRED INFLOWS OF RESOURCES		95,818

NET POSITION

Net investment in capital assets		570,576
Restricted for PFC (Note 1)		30,663
Unrestricted		302,020
		302,020

TOTAL NET POSITION \$ 903,259

JOHN WAYNE AIRPORT
Statement of Revenues, Expenses, and Change in Net Position
For the Year Ended June 30, 2023
(To the Nearest Thousand)

OPERATING REVENUES	
Terminal space rental	\$ 30,163
Auto parking	38,006
Concessions	40,386
Landing fees	20,053
Revenue from use of property	23,487
Revenue from services	9,963
Aircraft tiedown fees	25
Total operating revenues	162,083
 OPERATING EXPENSES	
Professional and specialized services	52,730
Salaries and employee benefits	18,042
Services and supplies	45,661
Taxes and other fees	192
Depreciation and amortization (Note 10)	34,220
Total operating expenses	150,845
Operating income	11,238
 NONOPERATING REVENUES (EXPENSES)	
Interest income	12,260
Net decrease in the fair value of investments	(3,736)
Interest expense	(487)
Fines and penalties	410
Loss on disposition of capital assets, net	(2,096)
Loss on debt defeasance (Note 6)	(1,189)
Intergovernmental revenues	48,359
Other expense, net	(2,581)
PFC revenue (Note 1)	22,876
Total nonoperating revenues	73,816
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	85,054
Capital grant contributions	225
Transfers to County of Orange	(12)
CHANGE IN NET POSITION	85,267
TOTAL NET POSITION, BEGINNING OF YEAR	817,992
TOTAL NET POSITION, END OF YEAR	\$ 903,259

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Cash Flows
For the Year Ended June 30, 2023
(To the Nearest Thousand)

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 144,247
Payments to suppliers for goods and services	(96,112)
Payments to employees	(12,688)
Payments to County of Orange	(348)
Payments for taxes and other fees	(192)
Other receipts	486
Other payments	(277)
Net cash provided by operating activities	<u>35,116</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

Operating transfers out	(12)
Intergovernmental revenues	52,088
Net cash provided by noncapital financing activities	<u>52,076</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(14,891)
Cash contributed to an irrevocable escrow fund to defease debt	(58,478)
Principal payments on long-term debt	(6,750)
Interest paid on long-term debt	(2,832)
Proceeds from capital grant contributions	2,468
Principal paid on financed purchase liability	(332)
Principal paid on leases	(18)
Interest paid on leases	(1)
Principal paid on subscription	(7)
Proceeds from sale of capital assets	28
Receipts from PFC	21,499
Receipts for leases receivable	15,044
Interest on leases receivable	3,125
Net cash used by capital and related financing activities	<u>(41,145)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Sale of investments	17,091
Interest on investments	10,541
Net change in the fair value of investments	(3,736)
Net cash provided by investing activities	<u>23,896</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 69,943

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 300,064

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 370,007

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES

Operating income	\$	11,238
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization		34,220
Recognition of lease income		(18,168)
Fines and penalties		410
Other revenue		70
 (INCREASES) DECREASES IN:		
Receivables, net		14,041
Due from County of Orange		(120)
Due from other governmental agencies		(277)
Prepaid expenses		2,285
Deposits in lieu of cash		(216)
Deferred outflows of resources related to pension		(2,956)
Deferred outflows of resources related to OPEB		(187)
INCREASES (DECREASES) IN:		
Accounts payable		2,665
Retainage payable		(33)
Salaries and employee benefits payable		(139)
Unearned revenue		1,047
Due to County of Orange		(228)
Due to other governmental agencies		(235)
Compensated employee absences		(447)
Deposits from others		746
Net pension liability		20,610
Net OPEB liability		326
Deferred inflows of resources related to pension		(14,088)
Deferred inflows of resources related to OPEB		(404)
Deferred inflows of resources related to leases		(15,044)
Net cash provided by operating activities	\$	35,116

RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION

Cash	\$	120
Pooled cash and investments with Treasurer		341,422
Imprest cash		14
Restricted pooled cash and investments held for others		1,188
Restricted pooled cash and investments with Treasurer		27,263
TOTAL CASH AND CASH EQUIVALENTS	\$	370,007

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Acquisition of capital assets with accounts payable	\$	2,972
Acquisition of capital assets with retainage payable		103
Lease liability for acquisition of lease assets		34
Accrued capital grant contribution receivable		221
Loss (gain) on disposition of capital assets		2,096
Loss (gain) on debt defeasance		1,189
Amortization of bond premium		6,180
Amortization of deferred charge on refunding		1,306

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
Notes to Financial Statements
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

Description of Reporting Entity

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

The Airport is operated as a department of the County of Orange, California (County), and is accounted for as a self-supporting enterprise fund in the basic financial statements of the County. The financial statements presented herein represent the financial position, 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 (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 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 and meeting certain mitigation measures. These amendments will maintain the Airport's curfew through 2035 and increase the number of passenger loading bridges from 14 to 20. Beginning January 2021 through December 31, 2030, there shall be no limit on the number of passenger loading bridges.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

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, 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 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.

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 40 years for equipment and intangible assets and 5 to 60 years for infrastructure and structures and improvements. No depreciation or

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

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

Capital Assets (Continued)

amortization is provided on construction in progress or intangible assets in progress until the project is completed and the asset is placed in service.

Leases

According to Governmental Accounting Standards Board (GASB) Statement No. 87, a lease is defined as a contract that transfers the right to use another entity's asset for a specific period of time in an exchange or exchange-like transaction. Under these contracts, the Airport recognizes a lease liability and a lease asset (intangible right-to-use asset) at the commencement of the lease term. The lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs.

Likewise, the Airport leases its real property, structure and improvements to others, which include noncancellable leases with air carriers and concessionaires. The lease threshold for capitalization is \$0 for structures and improvements and \$0 for land. Under these contracts, the Airport as a lessor, recognizes a lease receivable and a deferred inflow of resources at the commencement of the lease term. The lease receivable is measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The Airport also has regulated leases, not subject to the provisions of GASB Statement No. 87. For regulated leases, no lease receivable or deferred inflows of resources are reflected in the financial statements.

An amendment to a lease contract is considered a lease modification, unless the lessee's right to use the underlying asset decreases, in which case it is considered a partial or full lease termination. A lease termination is accounted for by reducing the carrying values of the lease liability and lease asset by a lessee, or the lease receivable and deferred inflows of resources by the lessor, with any difference being recognized as a gain or loss.

The future lease payments are discounted using the interest rate implicit in the lease contract. If the interest rate is not available, the Airport uses its incremental borrowing rate determined by the County Executive Office. The lease term is determined by the sum of the noncancelable periods, plus renewal options when they are reasonably certain of being exercised or early termination options when they are reasonably certain of not being exercised.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

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

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.

Cash and Investments

Pooled cash and investments with Treasurer, pooled cash and investments held for others, and specific investments with Treasurer are funds that the Airport has on deposit with the Orange County Treasurer (Treasurer). These funds are invested in accordance with the Investment Policy Statement (IPS) approved by the County Board of Supervisors (Board). The Treasurer allocates interest earned on the pooled cash and investments in the County Investment Pool (Pool) to the Airport monthly based on average daily balances on deposit with the Treasurer and credits interest earned on specific investments directly to the Airport. The Airport's investments are stated at fair value. As of January 2023, the Treasurer closed the Airport's specific investment accounts, and the balance was transferred into the pooled fund cash account at the County's custodial bank. Closing the accounts will provide for 100% investment of all JWA operating funds daily, consistent with other County enterprise funds that are part of the pooled funds.

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 \$1,312,938. 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.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

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

Pension

The Airport recognizes a net pension liability to reflect its proportionate share of the County’s net pension liability.

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 Airport’s share of the County’s cost-sharing defined benefit retirement plans administered by the Orange County Employees Retirement System (OCERS) and the Extra-Help Defined Benefit Plan and additions to/deductions from 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.

Other Postemployment Benefit

The Airport recognizes a net Other Postemployment Benefit (OPEB) liability to reflect its proportionate share of the County’s net OPEB liability.

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 the Airport’s share of the 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.

Deferred Outflows/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 is a consumption of net assets that is applicable to a future period and, therefore, will not be recognized as an expense until that time. A deferred inflow of resources represent an acquisition of net assets that is applicable to a future period and, therefore, will not be recognized as a revenue until that time. For deferred inflows of resources where the Airport is the lessor and is reported in the Statement of Net Position, the deferred inflow of resources are recognized as an inflow of resources (revenue), on the straight-line basis over the term of the lease.

The deferred outflows/inflows of resources, included in the Statement of Net Position, relate to the deferred outflows/inflows of resources related to pension and OPEB, and deferred inflow of resources related to leases. Deferred resources related to pension and OPEB result from the net difference between projected and actual investment earnings on the plan investments, changes of

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

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

Deferred Outflows/Inflows of Resources (Continued)

assumptions and changes in proportion and differences between employer contributions and the proportionate share of contributions calculated by the actuarial study. The deferred outflows of resources related to pension and OPEB also includes employer contributions made after the measurement date and a portion of the County’s prepaid retirement contribution.

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 incurred.

Components of Net Position

Net investment in capital assets - This amount is derived by subtracting the outstanding debts 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, 2023, the Airport reported restricted net position of \$30,663 for Passenger Facility Charges (PFC) by the Program Guidelines.

Unrestricted - This category consists of net position that does not meet the definition of net investment in capital assets or restricted. These assets are resources of the Airport that can be used for any purpose, though they may not necessarily be liquid.

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 (not in thousand) per enplaned passenger effective July 1, 2006. The total approved PFC revenue to be collected was \$321,351

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

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

Passenger Facility Charges (Continued)

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. In June 2021, the FAA approved the Airport's request to change the charge expiration date from January 1, 2022 to January 1, 2024. In March 2023, the FAA approved the Airport's second application to collect PFC revenue of \$36,309 through October 1, 2025, totaling \$347,911 of approved PFC revenue to be collected.

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

During the year ended June 30, 2023, \$22,876 PFC revenue was reported and \$20,847 was expended on approved PFC projects.

Subscription-Based Information Technology Arrangements (SBITA)

According to GASB Statement No. 96, a SBITA is defined as a contract that transfers the right to use another entity's subscription asset for a specific period of time in an exchange or exchange-like transaction. Under these contracts, the Airport recognizes a SBITA liability and a SBITA asset (intangible right-to-use SBITA asset) at the commencement of the SBITA term. The SBITA liability is measured at the present value of payments expected to be made during the SBITA term (less any SBITA incentives). The SBITA asset is measured at the amount of the initial measurement of the SBITA liability, plus any payments made to the vendor at or before the commencement of the SBITA term and any capitalizable initial implementation costs.

An amendment to a SBITA contract is considered a SBITA modification, unless the Airport's right to use the underlying asset decreases, in which case it is considered a partial or full SBITA termination. A SBITA termination is accounted for by reducing the carrying values of the SBITA liability and SBITA asset by the Airport, with any difference being recognized as a gain or loss.

The future SBITA payments are discounted using the interest rate implicit in the SBITA contract. If the interest rate is not available, the County uses its incremental borrowing rate determined by the County Executive Office/Public Finance. The SBITA term is determined by the sum of the non-cancelable periods, plus renewal options when they are reasonably certain of being exercised or early termination options when they are reasonably certain of not being exercised.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

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 35%, 16%, and 14% of market share during the year ended June 30, 2023.

Note 2 – Change in Accounting Principle

The Airport implemented GASB Statement No. 96 in the current financial statements, which resulted in the restatement of the Statement of Net Position:

Net position at June 30, 2022	\$	817,992
Right-to-use SBITA assets under GASB Statement No. 96		20
SBITA liabilities under GASB Statement No. 96		(20)
Net position at June 30, 2022, as restated	<u>\$</u>	<u>817,992</u>

Refer to Note 10, Changes in Capital Assets, and Note 13, SBITA, to the financial statements for additional information on GASB Statement No. 96.

Note 3 – Cash and Investments

The Airport’s investment policy guidelines allow for the same types of investments as the Board approved IPS.

Total Airport cash and investments at fair value as of June 30, 2023, was as follows:

Cash and pooled cash and investments:		
Cash on hand	\$	134
Pooled cash and investments, restricted		28,451
Pooled cash and investments		341,422
Total cash and pooled cash and investments	<u>\$</u>	<u>370,007</u>

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 3 – Cash and Investments (Continued)

Cash

Cash represents amounts held by the Treasurer account, which was established upon the authorization of the Board shortly following the County bankruptcy.

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.

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 Annual Comprehensive Financial Report (ACFR). The ACFR is available by accessing the Auditor-Controller's website at <http://www.ac.ocgov.com>.

Note 4 – Defined Benefit Pension Plan

Plan Description

All full-time employees of the Airport participate in the County's cost-sharing multiple-employer defined benefit pension plans administered by OCERS.

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 County 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.

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.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 4 – Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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 an annual annuity equal to a 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 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. The 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, 2023, the employer’s contribution rate as a percentage of covered payroll for general members was 40.82%. The Airport’s total contribution to OCERS for the year ended June 30, 2023 was \$3,682.

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

For the year ended June 30, 2023, the County reported a liability of \$4,469,949 for its proportionate share of the net pension liability, of which the Airport’s allocated share of the County’s net pension liability totaled \$42,198. The County’s net pension liability was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined using actuarial valuation results.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 4 – Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2023, the Airport recognized pension expense of \$4,937. The significant increase in pension expense was due to an investment loss recognized in this year's expense. At June 30, 2023, 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	\$ 7,285	\$ --
Difference Between Expected and Actual Experience	724	727
Changes of Assumptions	662	689
Changes in Proportion and Differences Between Airport		
Contributions and Proportionate Share of Contributions	139	47
Contributions Subsequent to Measurement Date	2,153	--
Total	\$ 10,963	\$ 1,463

\$2,153 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, 2024.

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
2024	\$ (540)
2025	1,032
2026	2,291
2027	4,543
2028	21
Total	\$ 7,347

For additional details on the defined benefit pension plan, actuarial assumption, the net pension liability, and the required supplementary information, as well as other retirement plans, refer to the County's ACFR. The ACFR is available by accessing the Auditor-Controller's website at <http://www.ac.ocgov.com>.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 5 – 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 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 Retiree Medical Plan) multiplied by the employee’s qualifying hours of service (as defined) since the Retiree Medical Plan’s effective date.

As of June 16, 2023, the Grant will be frozen for existing employees, and they will not accrue additional services hours towards eligibility for the Grant. All employees with one or more years of credited service as of June 15, 2023, shall be eligible for the frozen Grant. The annual Cost of Living Adjustments (COLA) and age adjustment (+/- 7.5%) will be eliminated. New employees as of June 16, 2023, will not be eligible for the Grant.

Contributions

As an enterprise fund of the County, the Airport was required to contribute 3.33% of its payroll for the year ended June 30, 2023. The Airport’s contribution was \$356, 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, 2023, the County reported a liability of \$271,417 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 \$2,212. The County’s collective net OPEB liability was measured as of December 31, 2022, and the total OPEB liability used to calculate the collective net OPEB liability was determined by an actuarial valuation as of June 30, 2021.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 5 – Postemployment Health Care Benefits (Continued)

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

For the year ended June 30, 2023, the Airport recognized OPEB expense of \$103. At June 30, 2023, 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	\$ 192	\$ --
Difference Between Expected and Actual Experience	--	274
Changes of Assumptions	47	71
Changes in Proportion and Differences Between Airport		
Contributions and Proportionate Share of Contributions	23	30
Contributions Subsequent to Measurement Date	185	--
Total	\$ 447	\$ 375

\$185 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, 2024.

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

Year Ending June 30,	Amount
2024	\$ (63)
2025	(30)
2026	(7)
2027	48
2028	(43)
2029 +	(18)
Total	\$ (113)

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

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 6 – Long-Term Obligations

Airport Revenue Refunding Bonds, Series 2019A and 2019B

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 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. For the year ended June 30, 2023, the total debt service principal and interest paid were \$6,750 and \$2,832, respectively.

The 2019 Bonds were 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 could exercise any remedies available under the bond indentures and under state and federal law.

On February 16, 2023, the Airport executed the in-substance defeasance of the 2019A and 2019B Bonds, for the outstanding principal and interest balances of \$53,260 and \$7,662, respectively. The Airport defeased its bonds due to the availability of federal relief aid and Available PFC collections eligible to fund the defeasance. The Airport deposited \$58,478, including \$15,911 in Available PFC revenues, in an irrevocable escrow fund, and the amounts were invested in State and Local Government Series (SLGS) securities to be used solely for satisfying scheduled debt service payments of the defeased debt through and including July 1, 2027. As a result, the beginning fiscal year principal balance of \$60,010, including the \$6,180 premium, of the 2019A and 2019B Bonds, totaling \$66,190, is no longer reported as a liability in the Airport's financial statements. Additionally, in accordance with GASB Statement No. 86, the Airport recognized a loss on the defeasance of \$1,189. As of June 30, 2023, the outstanding balance of the defeased bonds was \$60,922.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 6 – Long-Term Obligations (Continued)

Airport Revenue Refunding Bonds, Series 2019A and 2019B (Continued)

Revenue bonds outstanding and related activity for the year ended June 30, 2023, were as follows:

	Balance at July 1, 2022	Additions	Deductions	Balance at June 30, 2023	Due in 1 year
<u>Airport Revenue Refunding Bonds</u>					
Series 2019A	\$ 27,880	\$ --	\$ (27,880)	\$ --	\$ --
Bond Premium	2,969	--	(2,969)	--	--
<u>Airport Revenue Refunding Bonds</u>					
Series 2019B	32,130	--	(32,130)	--	--
Bond Premium	3,211	--	(3,211)	--	--
Total	<u>\$ 66,190</u>	<u>\$ --</u>	<u>\$ (66,190)</u>	<u>\$ --</u>	<u>\$ --</u>

Other Long-Term Liabilities

Other long-term liability activities for the year ended June 30, 2023, were as follows:

	Balance at July 1, 2022	Additions	Deductions	Balance at June 30, 2023	Due in 1 year
Compensated Employee Absences	\$ 1,586	\$ 990	\$ (1,437)	\$ 1,139	\$ 827
Financed Purchase Liability	663	--	(332)	331	331
Intangible Assets Obligations Payable	324	--	(146)	178	89
Lease Liability	--	34	(18)	16	16
SBITA Liability	20	--	(7)	13	6
Pollution Remediation Obligation	994	--	--	994	--
Total	<u>\$ 3,587</u>	<u>\$ 1,024</u>	<u>\$ (1,940)</u>	<u>\$ 2,671</u>	<u>\$ 1,269</u>

Note 7 – Leases

Lessee

The Airport entered into a noncancelable lease for equipment with a vendor as a lessee for the intangible right-to-use lease equipment. During year ended June 30, 2023, the Airport recognized an initial right-to-use lease asset balance of \$0, increases of \$34 due to new leases and lease modification, and amortization of \$24, for a right-to-use asset balance of \$10, net of amortization at June 30, 2023.

During year ended June 30, 2023, the discount rate applied to new or modified leases is 4%. The Airport recognized an initial liability of \$0, increases of \$34 due to new leases and lease modification, principal lease payment of \$18, and interest payments of \$0. The principal payments and lease adjustments reduced the lease liability to \$16 at June 30, 2023.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 7 – Leases (Continued)

Lessee (Continued)

	<u>Balance at July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2023</u>
Right-to-Use Asset				
Lease Equipment	\$ --	\$ 34	\$ --	\$ 34
Less Amortization				
Lease Equipment	--	(24)	--	(24)
Total Lease Assets, net of amortization	<u>\$ --</u>	<u>\$ 10</u>	<u>\$ --</u>	<u>\$ 10</u>

The future minimum principal and interest payments as of June 30, 2023, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	<u>\$ 16</u>	<u>\$ --</u>
Total	<u>\$ 16</u>	<u>\$ --</u>

Lessor

The Airport leases its real property and structures and improvements to others for office space, advertising and rental car concessions. During year ended June 30, 2023, the discount rate applied to new or modified leases is 4%. The Airport recognized \$13,861 principal and \$3,125 in interest cash receipts. As of June 30, 2023, the leases receivable balance is \$96,626, and deferred inflow balance is \$93,980. Variable rental payments received by the Airport totaled \$3,690 for the year ended June 30, 2023.

	<u>Balance at July 1, 2022</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2023</u>
Leases Receivable				
Building & Improvements	\$ 7,539	\$ --	\$ (931)	\$ 6,608
Land	102,948	--	(12,930)	90,018
Total Leases Receivable	<u>\$ 110,487</u>	<u>\$ --</u>	<u>\$ (13,861)</u>	<u>\$ 96,626</u>

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 7 – Leases (Continued)

Lessor (Continued)

Future minimum principal and interest revenue to be received under these leases as of June 30, 2023, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 14,283	\$ 2,703
2025	14,717	2,269
2026	15,166	1,821
2027	15,627	1,360
2028	15,538	887
2029-2030	21,295	482
Total	<u>\$ 96,626</u>	<u>\$ 9,522</u>

Regulated Leases

In accordance with GASB Statement No. 87, certain lease agreements, between airports and aeronautical users are subject to regulations set forth by the Federal Aviation Administration and Department of Homeland Security. A lease receivable and a deferred inflows of resources is not recognized for these leases. The Airport identifies the following regulated leases:

Commercial and Commuter Airlines and Cargo Leases

The Airport entered into five-year lease agreements with various commercial and commuter airlines and cargo carriers that commenced on January 1, 2021 and expire on December 31, 2025, with no option to extend. Revenues from terminal rates, landing, operations, and remain over-night fees totaled \$66,365 for the year ended June 30, 2023, of which \$35,120, are considered variable rental payments.

Airline rental revenues are based on the revenue planning policy adopted by the Board and are subject to change semi-annually in accordance with the related airlines' operating lease agreements. Due to the nature of the above revenues, expected future minimum payments are indeterminable.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 7 – Leases (Continued)

Regulated Leases (Continued)

Fixed-Base Operation Leases

The Airport entered into multi-year lease agreements with full service and limited service fixed-base operators (FBO) that commenced on January 1, 2021. The full service agreements expire on December 31, 2055, with no option to extend. The limited service agreements expire on December 31, 2050, and with certain conditions, the lessee shall have the option to extend. Revenues from ground rent, building rent, and percentage rent of various gross receipts totaled \$10,278 for the year ended June 30, 2023, of which \$2,357, are considered variable rental payments. The future minimum payments are shown in the following table.

Limited Use General Aviation Facility Lease

The Airport entered into a two-year agreement with a limited use general aviation operator on September 1, 2006, which included an option for an 18 year lease extension. On October 21, 2008, the lease was extended to August 31, 2026, and on December 18, 2012, the lease was extended to August 31, 2036. Revenue from ground rent totaled \$510 for the year ended June 30, 2023, paid in twelve monthly installments. The future minimum payments are shown in the following table.

Hydrant Fueling Facilities Lease

The Airport entered into a 25-year hydrant fueling facilities lease agreement with a consortium of airline carriers on September 14, 1990. On September 14, 2010, the lease was extended to December 31, 2030. Revenue from rent totaled \$29 for the year ended June 30, 2023, paid in twelve monthly installments. The future minimum payments are shown in the following table.

Security Services Lease

The Airport entered into a five-year agreement with the Transportation Security Administration on October 1, 2018. On October 31, 2023, the lease was extended to September 30, 2033. Revenue from rent totaled \$278 for the year ended June 30, 2023, paid in twelve monthly installments.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 7 – Leases (Continued)

Regulated Leases (Continued)

Future minimum lease payments to be received as of June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	Fixed-Base Operation Lease	Limited Use General Aviation Facility Lease	Hydrant Fueling Facilities Lease	Security Services Lease	Total
2024	\$ 8,182	\$ 509	\$ 27	\$ 327	\$ 9,045
2025	8,182	509	27	352	9,070
2026	7,673	509	27	365	8,574
2027	7,164	509	27	379	8,079
2028	7,164	509	27	394	8,094
2028-2033	31,685	2,546	69	2,215	36,515
2033-2038	22,031	1,619	--	121	23,771
2038-2043	22,031	--	--	--	22,031
2043-2048	22,031	--	--	--	22,031
2048-2053	20,936	--	--	--	20,936
2053-2058	7,257	--	--	--	7,257
Total	<u>\$ 164,336</u>	<u>\$ 6,710</u>	<u>\$ 204</u>	<u>\$ 4,153</u>	<u>\$ 175,403</u>

Under the agreements with the airlines, they may have exclusive use of certain space and facilities of the terminals, of which are structures and improvements within capital assets, in the Airport as summarized below:

<u>Terminal</u>	Airlines Using the Terminal Area Exclusively	Exclusively Used Terminal Area (SQFT)
A	Air Canada	597
A	American	11,201
A	Breeze	298
A	Delta	3,182
A	WestJet	474
B	Alaska	3,083
B	United	11,687
C	Allegiant	603
C	Frontier	605
C	Southwest	10,460
C	Spirit	810
	Total	<u>43,000</u>

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 8 – Related Party Transactions

The Airport reimburses the County for the cost of providing security, project management, maintenance, 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 \$38,766 for the year ended June 30, 2023.

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, 2023, was as follows:

Due To	Due From	Amount
Airport	General Fund	\$ 14
Total Due From County of Orange		<u>\$ 14</u>

Due To	Due From	Amount
General Fund	Airport	\$ 2,089
Internal Service Funds	Airport	234
Other Governmental Funds	Airport	66
Total Due To County of Orange		<u>\$ 2,389</u>

Note 9 – Commitments

At June 30, 2023, the Airport was committed under major contracts for the following:

Facility Accessibility Improvements	\$ 28,239
Vertical Conveyance Systems Improvements	18,987
Design and Build of Aircraft Rescue and Fire Fighting Vehicle Crash - 3	1,647
Total	<u>\$ 48,873</u>

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 10 – Changes in Capital Assets

Capital asset activity for the year ended June 30, 2023, was as follows:

	Balance at July 1, 2022, as restated	Additions	Deductions	Balance at June 30, 2023
Capital assets, not depreciated/amortized:				
Land	\$ 15,678	\$ --	\$ --	\$ 15,678
Construction in progress	26,409	12,475	(3,180)	35,704
Total capital assets, not depreciated/amortized	<u>42,087</u>	<u>12,475</u>	<u>(3,180)</u>	<u>51,382</u>
Capital assets, depreciated/amortized:				
Structures and improvements	936,912	535	(2,689)	934,758
Equipment	17,377	2,187	(246)	19,318
Infrastructure	240,224	--	--	240,224
Intangible assets	4,853	--	(58)	4,795
Right-to-Use Assets:				
Lease equipment	--	34	--	34
SBITA	20	--	--	20
Total capital assets, depreciated/amortized	<u>1,199,386</u>	<u>2,756</u>	<u>(2,993)</u>	<u>1,199,149</u>
Less accumulated depreciation/amortization:				
Structures and improvements	(425,626)	(28,510)	565	(453,571)
Equipment	(9,591)	(1,609)	186	(11,014)
Infrastructure	(204,440)	(3,888)	--	(208,328)
Intangible assets	(3,216)	(183)	--	(3,399)
Right-to-Use Assets:				
Lease equipment	--	(24)	--	(24)
SBITA	--	(6)	--	(6)
Total accumulated depreciation/amortization	<u>(642,873)</u>	<u>(34,220)</u>	<u>751</u>	<u>(676,342)</u>
Total capital assets depreciated/amortized, net	<u>556,513</u>	<u>(31,464)</u>	<u>(2,242)</u>	<u>522,807</u>
Total capital assets, net	<u>\$ 598,600</u>	<u>\$ (18,989)</u>	<u>\$ (5,422)</u>	<u>\$ 574,189</u>

Total depreciation and amortization expense for the year ended June 30, 2023, was \$34,220.

Note 11 – New Accounting Pronouncements

The following summarizes recent GASB pronouncements implemented or effective in the year ended June 30, 2023:

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, 2021, which requires the Airport to implement this Statement in the

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 11 – New Accounting Pronouncements (Continued)

year ending June 30, 2023. The Airport implemented this Statement in the year ended June 30, 2023; however, this Statement did not have any impact on the Airport's financial statements.

In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This Statement improves financial reporting by addressing issues related to public-private and public-public partnership arrangements. It also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022, which requires the Airport to implement this Statement in the year ending June 30, 2023. The Airport implemented this Statement in the year ended June 30, 2023; however, this Statement did not have any impact on the Airport's financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022, which requires the Airport to implement this Statement in the year ending June 30, 2023. The Airport implemented this Statement in the year ended June 30, 2023. Refer to Note 13 to the financial statements, SBITA, for additional information.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. There are two remaining effective dates of this Statement. This section of the Statement clarifies provisions in (1) Statement No. 87 related to lease terms, classification of a short-term lease, recognition of a lease liability and lease asset, and identification of lease incentives, (2) Statement No. 94 related to determination of public-private and public-public partnership term and recognition of the underlying asset, and (3) Statement No. 96 related to the terms, classification and recognition of the subscription-based information technology arrangement term. The requirements of this section of the Statement are effective for reporting periods after June 15, 2022, which requires the Airport to implement this Statement in the year ending June 30, 2023. The Airport implemented this Statement in the year ended June 30, 2023; however, this Statement did not have any impact on the Airport's financial statements.

The following summarizes recent GASB Pronouncements that will be implemented in future financial statements. The Airport has not determined what, if any, impact implementation of the following Statement may have on future financial statements:

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The other effective date of this Statement is mentioned in this section. The last section of the Statement relates to Statement No. 53 and establishes the classification and reporting of derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023, which require the Airport to implement this Statement in the year ending June 30, 2024.

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 11 – New Accounting Pronouncements (Continued)

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. This Statement requires disclosure of accounting changes and error corrections in notes to the financial statements to show consistent and comprehensive information. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023, which requires the Airport to implement this Statement in the year ending June 30, 2024.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. This Statement provides a unified model to use to recognize liabilities for any compensated absences and results in a better estimate of the liability for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023, which requires the Airport to implement this Statement in the year ending June 30, 2025.

Note 12 – Pollution Remediation Obligation

In 1988, the Airport was named as a responsible party in a cleanup and abatement order (CAO) issued by the Regional Water Quality Control Board (RWQCB). The CAO identified four sites on Airport property as having chemical impacts to soil and groundwater. Site investigation and remedial action activities were completed, and in 2003, the RWQCB issued No Further Action letters to the Airport for the sites except the Old Fuel Farm site. At the Old Fuel Farm, site investigation activities were completed, and on-going remedial activities include removal of residual free hydrocarbon product and monitored natural attenuation of groundwater. Annual groundwater sampling and reporting is currently conducted at the Old Fuel Farm, and the reports are prepared and submitted to the RWQCB.

In 1993, hydrocarbon-impacted soils were documented following removal of two 1,000-gallon underground storage tanks (USTs) at Former Fire Station #33. Following over-excavation and off-site disposal of hydrocarbon-impacted soils, the Orange County Health Care Agency issued a Completion of Corrective Action Letter to the Airport in 1994 related to the UST removal activities. During geotechnical assessment activities conducted at Former Fire Station #33 in 1999, soils appearing to be impacted with hydrocarbons were encountered and the soil boring logs were submitted to the RWQCB. In 2002, the RWQCB requested that the Airport assess the presence and distribution of chemical impacts to soil and groundwater. Site investigation activities were conducted between 2002 and 2006, and on-going remedial activities include monitored natural attenuation of groundwater. Currently, semi-annual groundwater sampling and reporting is conducted at Former Fire Station #33, and the reports prepared are submitted to the RWQCB.

In 2009, a new estimated pollution remediation liability was calculated based on a more active method of remediation for each of the Old Fuel Farm and Former Fire Station #33 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, 2023, the Airport has a liability of \$994

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 12 – Pollution Remediation Obligation (Continued)

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, 2023.

The estimated pollution remediation obligation as of June 30, 2023, is:

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

Note 13 - Subscription-Based Information Technology Arrangements (SBITA)

The Airport entered into a noncancelable SBITA with a vendor for the intangible right-to-use SBITA asset. The SBITA terms include the noncancelable period per the contract plus/minus any extension options or termination options the Airport is reasonably certain to exercise. The Airport recognized in FY 2022-23 an initial right-to-use SBITA asset balance of \$20, and amortization of \$6, for a right-to-use asset balance of \$14, net of amortization at June 30, 2023.

During the year ended June 30, 2023, the discount rate applied to SBITAs is 4%. Using this discount rate, the Airport recognized in FY 2022-23 an initial SBITA liability of \$20 and principal SBITA payments of \$7.

	Balance at July 1, 2022	Increases	Decreases	Balance at June 30, 2023
Right-to-Use SBITA Asset	\$ 20	\$ --	\$ --	\$ 20
Less Amortization	<u>--</u>	<u>(6)</u>	<u>--</u>	<u>(6)</u>
Total Right-to-Use SBITA Asset, net of amortization	<u>\$ 20</u>	<u>\$ (6)</u>	<u>\$ --</u>	<u>\$ 14</u>

JOHN WAYNE AIRPORT
Notes to Financial Statements (Continued)
For the Year Ended June 30, 2023
(To the Nearest Thousand)

Note 13 - Subscription-Based Information Technology Arrangements (SBITA) (Continued)

The principal SBITA payments reduced the SBITA liability to \$13 at June 30, 2023. The future principal and interest payments as of June 30, 2023 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 6	\$ 1
2025	7	--
Total	\$ 13	\$ 1

Note 14 – Contingencies

Federal Assistance for COVID-19

On August 17, 2021, the Airport received an allocation of \$33,582 from the Airport Rescue Grants under the American Rescue Plan Act. This grant can be used to reimburse the Airport for allowable costs incurred from January 20, 2020 to August 16, 2025. During the year ended June 30, 2023, the Airport recognized grant revenue of \$30,586. The grant balance was \$2,996 as of June 30, 2023.



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 ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Airport’s basic financial statements and have issued our report thereon dated December 20, 2023. Our report included an emphasis of matter paragraph describing the Airport’s adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Agreements*, for the year ended June 30, 2023. Our report also included an emphasis of matter paragraph stating 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, 2023.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 or significant deficiencies may exist that have not been identified.

Report on 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 financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Laguna Hills, California
December 20, 2023