

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

Financial Statements  
and Independent Auditor's Reports

For the Years Ended June 30, 2011 and 2010

**JOHN WAYNE AIRPORT  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**

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## INDEPENDENT AUDITOR'S REPORT

Board of Supervisors  
County of Orange, California

We have audited the accompanying financial statements of John Wayne Airport (the Airport), an enterprise fund of the County of Orange, California, as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only John Wayne Airport, an enterprise fund of the County of Orange, California and do not purport to, and do not, present fairly the financial position of the County of Orange, California as of June 30, 2011 and 2010, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2011 on our consideration of the Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Airport has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Vavriach, Train, Douglas & Co., LLP*

Laguna Hills, California  
November 14, 2011

**JOHN WAYNE AIRPORT**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Current assets:		
Cash (Note 2)	\$ 5,475	\$ 11,590
Pooled cash and investments with Treasurer (Note 2)	73,113	95,690
Cash Equivalents/Specific investments with Treasurer (Note 1 and 2)	36,297	31,517
Imprest cash (Note 2)	14	14
Accounts receivable	4,449	5,271
Interest receivable	458	1,095
Due from County of Orange (Note 11)	--	1
Due from other governmental agencies	4,066	5,065
Prepaid expenses	3,375	109
Debt issuance costs (Note 1)	197	248
Current restricted assets:		
Restricted cash and investments with trustee (Note 2)	14,635	14,058
Pooled cash and investments held for others (Note 2)	1,156	811
Pooled cash and investments with Treasurer (Note 2)	119,949	191,025
Passenger Facility Charges (PFC) receivable (Note 1)	2,012	2,444
Deposits in lieu of cash	28,312	30,722
Total current assets	293,508	389,660
Noncurrent restricted assets:		
Investments with trustee (Note 2)	18,451	18,451
Capital assets:		
Land (Note 10)	15,678	15,678
Buildings (Note 10)	342,728	306,078
Equipment (Note 10)	11,549	11,328
Infrastructure - runways, taxiways and aprons (Note 10)	215,607	210,778
Construction in progress (Note 10)	311,392	188,723
Less accumulated depreciation (Note 10)	(331,247)	(315,659)
Total capital assets	565,707	416,926
Other noncurrent assets:		
Investments with Treasurer (Note 2)	13,285	17,964
Debt issuance costs (Note 1)	1,785	1,982
Total noncurrent assets	599,228	455,323
<b>TOTAL ASSETS</b>	<b>\$ 892,736</b>	<b>\$ 844,983</b>

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT**  
**STATEMENTS OF NET ASSETS (CONTINUED)**  
**JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

	<b>2011</b>	<b>2010</b>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 24,610	\$ 19,515
Salaries payable	707	615
Interest payable	6,382	6,524
Deferred revenue	6,878	1,509
Due to County of Orange (Note 11)	2,129	1,945
Pollution remediation obligation (Note 5 and 13)	17	170
Compensated employee absences (Note 1 and 5)	1,106	1,046
Current liabilities payable from restricted assets:		
Bonds payable, net of deferred amounts on refundings and premiums (Note 5)	7,782	7,416
Deposits from others	29,468	31,533
Total current liabilities	79,079	70,273
Noncurrent liabilities:		
Arbitrage rebate payable (Note 5)	107	65
Pollution remediation obligation (Note 5 and 13)	1,357	1,312
Compensated employee absences (Note 1 and 5)	1,296	1,191
Bonds payable, net of deferred amounts on refundings and premiums (Note 5)	248,900	256,682
Total noncurrent liabilities	251,660	259,250
<b>TOTAL LIABILITIES</b>	<b>330,739</b>	<b>329,523</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	387,687	326,221
Restricted for debt service	8,253	12,164
Restricted for PFC (Note 1)	41,646	35,062
Restricted for capital projects - replacements and renewals	1,000	1,000
Unrestricted	123,411	141,013
<b>TOTAL NET ASSETS</b>	<b>\$ 561,997</b>	<b>\$ 515,460</b>

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

	<b>2011</b>	<b>2010</b>
<b>OPERATING REVENUES</b>		
Terminal space rental	\$ 21,562	\$ 24,572
Auto parking	35,512	35,516
Concessions	24,268	23,515
Landing fees	12,369	11,970
Revenue from use of property	8,554	8,410
Charges for services	2,718	3,018
Aircraft tiedown fees	1,479	1,472
Total operating revenues	106,462	108,473
<b>OPERATING EXPENSES</b>		
Professional and specialized services	33,444	31,564
Salaries and employee benefits	18,118	17,334
Other services and supplies	19,110	19,873
Depreciation	15,830	19,684
Total operating expenses	86,502	88,455
Operating income	19,960	20,018
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income (Note 1)	1,857	1,667
Interest expense (Note 1)	(292)	(344)
Bankruptcy settlement proceeds	562	619
Fines and penalties	242	200
Other revenues (net)	65	158
PFC revenue	17,599	17,979
Total nonoperating revenues (expenses)	20,033	20,279
<b>INCOME BEFORE CONTRIBUTIONS</b>	39,993	40,297
Capital contributions	--	370
Capital grant contributions	6,544	7,707
<b>CHANGES IN NET ASSETS</b>	46,537	48,374
<b>TOTAL NET ASSETS BEGINNING OF YEAR</b>	515,460	467,086
<b>TOTAL NET ASSETS END OF YEAR</b>	\$ 561,997	\$ 515,460

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(to the nearest thousand)**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 107,268	\$ 107,083
Payments to suppliers for goods and services	(52,208)	(50,808)
Payments to employees for services	(21,130)	(17,095)
Internal activity - receipts from other funds	185	(13)
Other receipts	789	796
Net cash provided by operating activities	<u>34,904</u>	<u>39,963</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Intergovernmental revenues	68	68
Net cash provided by in noncapital financing activities	<u>68</u>	<u>68</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	(147,725)	(101,862)
Principal payments on long-term debt	(7,460)	(2,865)
Interest paid on long-term debt (Note 1)	(12,905)	(7,164)
Bond issuance costs paid on long-term debt	--	(2,060)
Proceeds from the issuance of long-term debt (Note 5)	--	233,402
Proceeds from capital grant contributions	7,626	3,397
Proceeds from sale of capital assets	11	20
Reimbursement of capital expenditures	5,593	--
Receipts from PFC	18,031	18,053
Net cash provided (used) in capital and related financing activities	<u>(136,829)</u>	<u>140,921</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales (Purchases) of investments, net	4,679	5,393
Interest received on investments	3,112	3,521
Net cash provided by investing activities	<u>7,791</u>	<u>8,914</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASHEQUIVALENTS</b>	(94,066)	189,866
<b>CASH AND CASHEQUIVALENTS - BEGINNING OF YEAR</b>	<u>344,705</u>	<u>154,839</u>
<b>CASH AND CASHEQUIVALENTS - END OF YEAR</b>	<u>\$ 250,639</u>	<u>\$ 344,705</u>

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

	<b>2011</b>	<b>2010</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET</b>		
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 19,960	\$ 20,018
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED/USED BY OPERATING ACTIVITIES:		
Depreciation	15,830	19,684
Fines and Penalties	242	200
Other Revenue	476	605
(INCREASES) DECREASES IN ASSETS:		
Accounts receivable	822	(840)
Due from County of Orange	1	23
Prepaid expenses	(3,266)	17
Deposits in lieu of cash	2,410	8,677
INCREASES (DECREASES) IN LIABILITIES:		
Accounts payable	343	612
Salaries payable	92	73
Deferred revenue	(224)	(1,110)
Due to County of Orange	184	(36)
Compensated employee absences payable	165	166
Deposits from others	(2,065)	(8,554)
Arbitrage rebate payable	42	34
Pollution remediation obligation	(108)	394
Net cash provided by operating activities	\$ 34,904	\$ 39,963
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS</b>		
Cash	\$ 5,475	\$ 11,590
Pooled cash and investments	73,113	95,690
Pooled cash and investments held for others	1,156	811
Pooled cash and investments with Treasurer	119,949	191,025
Imprest cash	14	14
Investments with Treasurer	49,582	49,481
Investments with Trustee	33,086	32,509
Total	282,375	381,120
Less: Investments with original maturities of three months or more	(31,736)	(36,415)
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 250,639</b>	<b>\$ 344,705</b>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Acquisition of capital assets with accounts payable	\$ 20,978	\$ 16,226
Acquisition of capital assets with capitalized interest payable	6,382	6,524
Contributed capital assets	--	370
Change in fair value of investments not considered cash or cash equivalents	(47)	(103)
Accrued capital grant contribution receivable	3,915	4,997
Accrued PFC receivable	2,012	2,444

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

*Note 1 – Reporting Entity and Summary of Significant Accounting Policies*

Description of Reporting Entity

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

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

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

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

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

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

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

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

Description of Reporting Entity (continued)

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

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

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

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

Passenger Facility Charges

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

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

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

Passenger Facility Charges (continued)

The FAA approved the Airport's PFC application to collect \$4.50 per enplaned passenger effective July 1, 2006. The total approved PFC revenue to be collected is \$321,351 through December 31, 2021.

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

During the fiscal years ended June 30, 2011 and 2010, \$18,031 and \$18,053 in PFC revenue was collected and \$11,148 and \$3,370 was expended on FAA approved projects, respectively.

Basis of Presentation - Fund Accounting

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

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

Basis of Accounting and Estimates

The Airport prepares its financial statements on the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP), which provides that revenues are recorded when earned and expenses are recorded when incurred. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

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

Basis of Accounting and Estimates (continued)

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

Capital Assets

Capital assets including infrastructure assets, purchased or constructed by the Airport are capitalized at cost, while contributed properties are recorded at fair market value when received. Assets are capitalized when the original unit cost is equal to or greater than the County's capitalization threshold of \$5 for equipment, \$150 for structures and improvements, \$0 for infrastructure and \$0 for land. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets, which range from 3 to 20 years for equipment and 15 to 45 years for infrastructure and structures. No depreciation is provided on construction in progress until construction is completed and the asset is placed in service.

Capitalization of Interest

Interest incurred during the construction phase is included as part of the capitalized value of the capital assets constructed. In the case of capital acquisitions financed by externally restricted tax-exempt debt, the amount of interest capitalized is calculated by netting interest expense on a borrowing against related interest earnings on the reinvested unexpended debt proceeds. During the fiscal year ended June 30, 2011, the total interest expense and interest revenue were \$11,273 and \$618, respectively, and the net amount of \$10,655 was included as part of the cost of capital assets under construction financed by externally restricted tax-exempt debt. For fiscal year ended June 30, 2010, the total interest expense and interest revenue were \$11,153 and \$2,329, respectively, and the net amount of \$8,824 was included as part of the cost of capital assets. For capital acquisitions financed by existing resources, the total interest expense incurred and the amount included as part of the cost of capital assets under construction for the fiscal years ended June 30, 2011 and 2010 were \$1,490 and \$1,641, respectively.

Premiums/Discounts, Deferred Refunding Amounts and Issuance Costs

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

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

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

Deposits in Lieu of Cash

The Airport requires security deposits from airport lease agreement operators and renters. These security deposits are comprised primarily of negotiable instruments and are held in safe deposit boxes.

Cash Equivalents

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

Pooled Cash and Investments

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

Investments with Treasurer

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

Self-Insurance

Liability, property and business interruption insurance is purchased by the County to provide insurance coverage for the Airport for a total insurable value amount of \$745,823. The related insurance premium is recorded as an Airport expense. The Airport also participates in the County's self-insured programs for general and automobile liability insurance, workers' compensation, group health indemnified insurance plans, group salary continuance plan, group dental plan and unemployment benefits plan. The Airport records its portion of the related self-insurance premiums charged by the County as an expense. The related liabilities are accrued by the County's self-insurance internal service fund based on estimated future amounts to be paid on known claims and incurred but not reported claims, including loss adjustment expenses.

Compensated Employee Absences

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

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

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

Components of Net Assets

Net Assets Invested in Capital Assets, Net of Related Debt - This amount is derived by subtracting the outstanding debt incurred by the Airport to buy or construct capital assets shown in the Statement of Net Assets. Capital assets cannot readily be sold and converted to cash.

Restricted Net Assets - This category represents restrictions imposed on the use of the Airport's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. As of June 30, 2011 and 2010, the Airport reported restricted net assets of \$50,899 and \$48,226, respectively, for debt service, Passenger Facility Charges and replacements and renewals, of which \$41,646 and \$35,062 was restricted by enabling legislation, respectively.

Unrestricted Net Assets - These assets are resources of the Airport that can be used for any purpose.

Policy Regarding Use of Restricted vs. Unrestricted Resources

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

Reclassifications

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

***Note 2 – Cash and Investments***

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

**JOHN WAYNE AIRPORT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(to the nearest thousand)**

*Note 2 – Cash and Investments (continued)*

Total Airport cash and investments at fair value as of June 30, 2011 and June 30, 2010 were as follows:

Cash and Pooled Cash and Investments:	2011	2010
Cash on hand	\$ 5,489	\$ 11,604
Pooled cash and investments	194,218	287,526
<b>Total Cash and Pooled Cash and Investments</b>	<b>199,707</b>	<b>299,130</b>
<b>Investments:</b>		
With Treasurer	49,582	49,481
With Trustee	33,086	32,509
<b>Total Investments</b>	<b>82,668</b>	<b>81,990</b>
<b>Total Cash and Investments</b>	<b>\$ 282,375</b>	<b>\$ 381,120</b>

Cash

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

Investments with Treasurer

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

The investment balance was \$49,582 and \$49,481 at June 30, 2011 and June 30, 2010 respectively, of which \$36,297 and \$31,517, respectively, are considered cash equivalents with original maturities of 90 days or less.

Pooled Cash and Investments

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

Investments with Trustee

Investments with trustee represent amounts held by a trustee bank that are restricted for use in either acquiring certain assets or servicing long-term debt of the Airport as required by the bond indentures.

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

*Note 2 – Cash and Investments (continued)*

Investments with Trustee (continued)

The trustee as fiscal agent is mandated by the bond indentures as to the government obligations in which the debt issuance proceeds can be invested. Investments with trustee are stated at fair value based on quoted market prices provided by the trustee's independent valuation service, except for Guaranteed Investment Contracts (GICs) which are stated at cost.

Pooled Cash and Investments Held for Others

The Orange County Development Agency (Agency) has deposited monies with the Airport in connection with a grant from the Federal Aviation Administration for purposes of funding the Acoustical Insulation Project and the Purchase Assurance Program in the Santa Ana Heights redevelopment area near the Airport. These projects were established to provide added insulation to homes in the area beyond the runway and for the purchase of property in the area.

Restricted deposits from the Agency of \$0 and \$141 were invested in the Pool and are included in restricted pooled cash and investments held for others as of June 30, 2011 and 2010, respectively.

Investments

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

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

\* Portfolio weighted average maturity

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

*Note 2 – Cash and Investments (continued)*

Investments (continued)

As of June 30, 2010, the Airport had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
With Treasurer:		
U.S. Government Agencies	\$ 12,909	0.26
Commercial Paper	14,196	0.08
Negotiable Certificates of Deposit	3,999	0.03
Medium Term Notes	6,155	0.45
Municipal Debt	3,861	0.04
Money Market Mutual Funds	8,361	--
Total investments with Treasurer	<u>\$ 49,481</u>	0.15 *
With Trustee:		
U.S. Government Agencies	\$ 13,192	0.31
Guaranteed Investment Contracts	8,466	1.64
Money Market Mutual Funds	691	--
Money Market Deposit Accounts	10,160	--
Total investments with Trustee	<u>\$ 32,509</u>	0.56 *

\* Portfolio weighted average maturity

Interest Rate Risk

Interest rate risk refers to the risk that changes in interest rates will affect the fair value of an investment. The County Treasurer manages exposure to declines in fair value by limiting the weighted average maturity (WAM) in accordance with the IPS. At June 30, 2011 and 2010, the WAM for the Pool approximated 342 and 273 days, respectively, and for Investments with Treasurer approximated 58 and 56 days, respectively. Investments with Trustee are not limited in maturity as a portion are in guaranteed investment contracts.

Custodial Credit Risk

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

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

*Note 2 – Cash and Investments (continued)*

Credit Risk

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

Concentration of Credit Risk

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

At June 30, 2011, the credit ratings of the Pool, specific investments with Treasurer, and investments with Trustee, and the related concentration of credit risk by investment type were as follows (NR means Not Rated):

	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Total</u>
<u>Pool Investments:</u>				
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	5.39%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	11.99%
Federal Farm Credit Bank	AAA	Aaa	AAA	6.76%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	0.65%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	24.63%
Federal Home Loan Mortgage Corporation Discount Notes	AAA	Aaa	AAA	3.09%
Federal Home Loan Mortgage Corporation Bonds	AAA	Aaa	AAA	16.90%
Commercial Paper	A-1	P-1	F1	3.37%
Negotiable Certificates of Deposit				
Certificate of Deposit	A-1	P-1	F1	1.28%
Certificate of Deposit	AAA	Aaa	AA	3.23%
Certificate of Deposit	AA	Aa	AA	2.09%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	0.32%
Corporate Notes	A	Aa	AA	0.32%
Corporate Notes	AA	Aa	NR	2.02%
Corporate Notes	AA	Aa	A	2.02%
Corporate Notes	AA	A	AA	0.17%
Corporate Notes	AA	Aa	AA	1.46%
Corporate Notes	AAA	Aaa	AA	0.48%
Corporate Notes	AAA	Aaa	AAA	2.97%

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

*Note 2 – Cash and Investments (continued)*

Concentration of Credit Risk (continued)

	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Total</u>
Municipal Debt				
Municipal Debt	NR	NR	A-1	4.75%
Municipal Debt	A	Aa	AA	1.80%
Treasuries	AAA	Aaa	AAA	3.40%
Money Market Mutual Funds	AAA	Aaa	AAA	0.91%
Total Pool				<u>100.00%</u>
With Treasurer:				
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	5.64%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	6.68%
Federal Farm Credit Bank	AAA	Aaa	AAA	20.25%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	16.57%
Federal Home Loan Mortgage Corporation Bonds	AAA	Aaa	AAA	12.91%
Bankers' Acceptances				
Bankers' Acceptances	A-1	P-1	F1	2.19%
Bankers' Acceptances	AA	Aa	AA	0.28%
Commercial Paper	A-1	P-1	F1	11.73%
Negotiable Certificates of Deposit				
Certificate of Deposit	AAA	Aaa	AA	1.21%
Certificate of Deposit	AA	Aaa	AA	4.04%
Certificate of Deposit	AA	Aa	AA	2.52%
Certificate of Deposit	AA	Aa	NR	2.02%
Certificate of Deposit	AAA	Aaa	NR	3.03%
Medium Term Notes				
Corporate Notes	AA	Aa	A	4.06%
Corporate Notes	AA	Aa	NR	2.09%
Corporate Notes	AAA	Aaa	AAA	2.04%
Money Market Mutual Funds	AAA	Aaa	AAA	2.74%
Total investments with Treasurer				<u>100.00%</u>

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

*Note 2 – Cash and Investments (continued)*

Concentration of Credit Risk (continued)

	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Total</u>
<u>Investments With Trustee:</u>				
Treasuries	AAA	Aaa	AAA	41.65%
Guaranteed Investment Contracts	NR	NR	NR	25.81%
Money Market Mutual Funds	AAA	Aaa	NR	0.19%
Money Market Deposit Accounts	NR	NR	NR	31.81%
Cash	NR	NR	NR	0.54%
Total investments with Trustee				<u>100.00%</u>

At June 30, 2010, the credit ratings of the Pool, specific investments with Treasurer, and investments with Trustee, and the related concentration of credit risk by investment type were as follows (NR means Not Rated):

	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Total</u>
<u>Pool Investments:</u>				
Asset-Backed Securities	NR	NR	NR	0.61%
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	1.29%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	15.09%
Federal Farm Credit Bank	AAA	Aaa	AAA	7.07%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	1.29%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	18.34%
Freddie Mac Discount Notes	AAA	Aaa	AAA	0.34%
Freddie Mac Bonds	AAA	Aaa	AAA	11.00%
Commercial Paper	A-1	P-1	F1	13.26%
Negotiable Certificates of Deposit	A-1	P-1	F1	6.41%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	0.50%
Corporate Notes	AA	Aa	AA	5.98%
Corporate Notes	AAA	Aaa	AAA	4.86%
Corporate Notes	AA	Aa	NR	1.67%
Municipal Debt	AAA	Aa	AAA	3.48%
Repurchase Agreements	NR	NR	NR	3.71%
Treasuries	AAA	Aaa	AAA	1.31%
Money Market Mutual Funds	AAA	Aaa	AAA	3.79%
Total Pool				<u>100.00%</u>

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

*Note 2 – Cash and Investments (continued)*

Concentration of Credit Risk (continued)

	<u>S&amp;P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Total</u>
<u>Investments With Treasurer:</u>				
U.S. Government Agencies				
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	3.04%
Federal Farm Credit Bank	AAA	Aaa	AAA	6.06%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	3.03%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	9.41%
Freddie Mac Discount Notes	AAA	Aaa	AAA	2.42%
Freddie Mac Bonds	AAA	Aaa	AAA	2.12%
Commercial Paper	A-1	P-1	F1	28.69%
Negotiable Certificates of Deposit				
Certificates of Deposit/Yankee CD	A-1	P-1	F1	8.08%
Medium-Term Notes	AA	Aa	AA	12.44%
Municipal Debt	AAA	Aa	AAA	7.80%
Money Market Mutual Funds	AAA	Aaa	AAA	16.91%
Total investments with Treasurer				<u>100.00%</u>
<u>Investments With Trustee:</u>				
U.S. Government Agencies				
Federal Home Loan Bank Bonds	AAA	Aaa	NR	40.58%
Guaranteed Investment Contracts	NR	NR	NR	26.04%
Money Market Mutual Funds	AAA	Aaa	NR	2.13%
Money Market Deposit Accounts	NR	NR	NR	31.25%
Total investments with Trustee				<u>100.00%</u>

**JOHN WAYNE AIRPORT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(to the nearest thousand)**

***Note 3 – Defined Benefit Pension Plan***

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

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

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

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

OCERS issues an audited stand-alone annual financial report, which can be obtained online at [www.ocers.org](http://www.ocers.org), in writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701, or by calling (714) 558-6200.

Funding Policy: In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. For fiscal years ended June 30, 2011 and 2010, the employer's contribution rate as a percentage of covered payroll for General members was 24.79% and 21.83%, respectively.

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. Base employee contributions are calculated using a formula defined in the Retirement Law. In the 1997 Ventura decision of the California Supreme Court, the Court stated that for the purpose of calculating pension benefits, "final compensation" can mean not only base salaries, but also other components. Orange County employee contributions under current contracts are calculated on base salary, eligible premium pay and some categories of overtime as define in the 1997 Ventura decision.

**JOHN WAYNE AIRPORT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(to the nearest thousand)**

***Note 3 – Defined Benefit Pension Plan (continued)***

The Airport’s total payroll was \$12,904 and \$12,790 and the payroll for employees covered by OCERS was \$12,904 and \$12,790 for the years ended June 30, 2011 and 2010, respectively. As an enterprise fund of the County of Orange, the Airport’s annual required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

<u>For Year Ending June 30,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 2,529	100%
2010	2,541	100%
2011	2,872	100%

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

***Note 4 – Postemployment Health Care Benefits***

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

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

In addition to the Grant, the Retiree Medical Plan provides a frozen lump sum payment to terminated employees not eligible for the Grant. The frozen lump sum payment is equal to 1% of the employee’s final average hourly pay (as defined in the plan) multiplied by the employee’s qualifying hours of service (as defined) since the Retiree Medical Plan’s effective date.

**JOHN WAYNE AIRPORT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(to the nearest thousand)**

***Note 4 – Postemployment Health Care Benefits (continued)***

Funding Policy: As an enterprise fund of the County of Orange, the Airport was required to contribute 2.6% of its payroll for the year ended June 30, 2011. The Airport’s required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

<u>For Year Ending June 30,</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 299	100%
2010	305	100%
2011	322	100%

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

***Note 5 – Long-Term Obligations***

General

The Airport has outstanding bonds, issued primarily to refund prior bond issuances. These bonds are payable solely from revenues of the Airport and are not general obligations of the County. Substantially all the excess of revenues over current expenses of the Airport is pledged for the repayment of these bonds. Interest is payable semi-annually on July 1 and January 1. The bond indenture agreement requires the Airport to deposit monthly with the trustee 1/12th of the principal amount of bonds maturing on the next July 1 and 1/6th of the interest payable on the next ensuing interest payment date.

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

Airport Revenue Refunding Bonds, Series 2003

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

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

***Note 5 – Long-Term Obligations (continued)***

On May 29 2003, the Airport issued the Airport Revenue Refunding Bonds, Series 2003 (2003 Bonds) in the amount of \$48,680 with interest rates ranging from 2.50% to 5.00% to refund \$65,250 of outstanding 1993 Revenue Bonds. This refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,828. This difference, reported in the accompanying financial statements as a deferred amount on refunding of 2003 Revenue Bonds, is being charged to operations through the year 2018 using the effective interest method. The outstanding carrying principal amount, including premium, and interest for 2003 Bonds as of June 30, 2011 was \$31,168 and \$6,350, respectively.

The 2003 Bonds are secured by a pledge of (1) operating revenues, net of specified expenses, (2) interest earnings, and (3) other miscellaneous revenue. The 2003 Bonds are payable through July 2018. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the fiscal year ended June 30, 2011, the principal and interest paid and total net revenues were \$4,581 and \$38,368 respectively.

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of \$233,115, with an original issue net premium of \$288. The 2009A and 2009B Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds and pay costs relating to the issuance of the bonds. The AIP consist of numerous direct improvements to the Airport facilities such as the construction of the new Terminal C, Parking Structure C and two new commuter/regional holdrooms at the north and south ends of the extended Terminal. As of June 30, 2011, the outstanding principal amount, including net premium, of the 2009A and 2009B Bonds were \$65,958 and \$162,111, respectively, and the outstanding interest were \$58,503 and \$105,927, respectively

The 2009A and 2009B Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses, (2) interest earnings, (3) other miscellaneous revenue and (4) available Passenger Facility Charges (PFC) revenue. The 2009A and 2009B Bonds are payable through July 2039. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the fiscal year ended June 30, 2011, the principal and interest paid and total net revenues were \$15,785 and \$49,567, respectively. The total net revenues include \$11,199 of available PFC revenue.

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

*Note 5 – Long-Term Obligations (continued)*

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

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

Revenue bonds outstanding and related activity for the year ended June 30, 2010, were as follows:

	Balance at July 1, 2009	Additions	Deductions	Balance at June 30, 2010	Due in 1 year
<u>Airport Revenue Refunding</u>					
<u>Bonds Series 2003</u>	\$ 36,055	\$ --	\$ (2,865)	\$ 33,190	\$ 3,015
Bond Premium	1,623	--	(339)	1,284	291
Deferred Amount on Refunding	(4,176)	--	873	(3,303)	(748)
<u>Airport Revenue Bonds</u>					
<u>Series 2009A</u>	--	67,305	--	67,305	320
Bond Premium/(Discount)	--	(964)	(34)	(998)	29
<u>Airport Revenue Bonds</u>					
<u>Series 2009B</u>	--	165,810	--	165,810	4,125
Bond Premium	--	1,252	(442)	810	384
<b>Total</b>	<b>\$ 33,502</b>	<b>\$ 233,403</b>	<b>\$ (2,807)</b>	<b>\$ 264,098</b>	<b>\$ 7,416</b>

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

**Note 5 – Long-Term Obligations (continued)**

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

Year Ending June 30,	2003 Bonds		2009A Bonds		2009B Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2012	\$ 3,165	\$ 1,411	\$ 340	\$ 3,284	\$ 4,345	\$ 7,898	\$ 20,443
2013	3,325	1,249	1,410	3,258	4,515	7,743	21,500
2014	3,495	1,078	1,450	3,215	5,340	7,595	22,173
2015	3,665	909	1,495	3,171	5,500	7,432	22,172
2016	3,835	730	1,540	3,121	5,665	7,218	22,109
2017-2021	12,690	973	8,700	14,538	32,725	31,551	101,177
2022-2026	-	-	11,080	12,069	41,860	22,062	87,071
2027-2031	-	-	13,465	8,864	43,485	9,790	75,604
2032-2036	-	-	13,715	5,489	9,100	3,647	31,951
2037-2040	-	-	13,790	1,494	9,150	991	25,425
Total	\$30,175	\$ 6,350	\$66,985	\$58,503	\$161,685	\$105,927	\$429,625

Other long-term liability activity for the years ended June 30, 2011 and 2010, respectively, were as follows:

	Balance at July 1, 2010	Additions	Deductions	Balance at June 30, 2011	Due in 1 year
Other Long-Term Liabilities:					
Compensated Employee Absences	\$ 2,237	\$ 1,549	\$ (1,384)	\$ 2,402	\$ 1,106
Arbitrage Rebate Payable	65	42	--	107	--
Pollution Remediation Obligation	1,482	--	(108)	1,374	17
Total Other Long-Term Liabilities	\$ 3,784	\$ 1,591	\$ (1,492)	\$ 3,883	\$ 1,123

	Balance at July 1, 2009	Additions	Deductions	Balance at June 30, 2010	Due in 1 year
Other Long-Term Liabilities:					
Compensated Employee Absences	\$ 2,071	\$ 1,765	\$ (1,599)	\$ 2,237	\$ 1,046
Arbitrage Rebate Payable	31	34	--	65	--
Pollution Remediation Obligation	1,088	394	--	1,482	170
Total Other Long-Term Liabilities	\$ 3,190	\$ 2,193	\$ (1,599)	\$ 3,784	\$ 1,216

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

***Note 6 – Property Leased to Others***

The Airport leases a portion of its capital assets under noncancelable operating lease agreements for airline operations, concessions and other commercial purposes. The cost and carrying value of the Airport's property under operating leases as of June 30, 2011 was the following:

	Cost of leased property	Accumulated depreciation of leased property	Total carrying value of leased property
Buildings	\$ 24,539	\$ (11,710)	\$ 12,829
Land	2,430		2,430
Balance at June 30, 2011	<u>\$ 26,969</u>	<u>\$ (11,710)</u>	<u>\$ 15,259</u>

The cost and carrying value of the Airport's property under operating leases as of June 30, 2010 was the following:

	Cost of leased property	Accumulated depreciation of leased property	Total carrying value of leased property
Buildings	\$ 23,639	\$ (11,370)	\$ 12,269
Land	2,430		2,430
Balance at June 30, 2010	<u>\$ 26,069</u>	<u>\$ (11,370)</u>	<u>\$ 14,699</u>

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Future Minimum Rent</u>
2012	\$ 17,506
2013	3,578
2014	2,662
2015	1,175
2016	550
2017-2021	2,503
2022-2026	1,687
2027-2031	61
Total	<u>\$ 29,722</u>

**JOHN WAYNE AIRPORT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010  
(to the nearest thousand)**

***Note 6 – Property Leased to Others (continued)***

Airline minimum rental revenues are based on rates adopted by the County’s Board of Supervisors and are subject to change semi-annually in accordance with the related airlines’ operating lease agreements. Concession minimum rental revenues are adjusted annually as outlined in the lessees’ operating leases.

The Airport also leases property through contingent rentals. Revenues from these contingent rentals arise primarily from a percentage of the lessees’ gross revenues. Contingent rental payments received by the Airport totaled \$26,725 and \$27,417 for the years ended June 30, 2011 and 2010, respectively.

***Note 7 – Commitments under Operating Leases***

Lease expense was \$447 and \$445 for the years ended June 30, 2011 and 2010, respectively. As of June 30, 2011, there was \$54 in outstanding lease commitments.

***Note 8 – Related Party Transactions***

The Airport reimburses the County for the cost of providing security, insurance and other administrative services to the Airport. Amounts charged by other County departments are reported as operating expenses during the year incurred, and totaled \$20,179 and \$20,921 for the years ended June 30, 2011 and 2010, respectively.

***Note 9 – Contingencies and Commitments***

**Commitments**

At June 30, 2011, the Airport was committed under contracts for the following construction projects:

Terminal Building Gate Expansion	\$ 11,436
Improvements of Tenant Airline Offices	6,687
Common Use Passenger Processing System (CUPPS)	2,758
Construction of Passenger Loading Bridges	2,748
Airport Improvement Program Project Management	2,652
Other	6,432
	<u>\$ 32,713</u>

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

**Note 10 – Changes in Capital Assets**

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

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

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

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance at June 30, 2009	Additions	Deductions	Adjustments	Balance at June 30, 2010
Capital assets, not depreciated:					
Land	\$ 15,678	\$ --	\$ --	\$ --	\$ 15,678
Construction in progress	121,964	119,927	(53,168)	--	188,723
Total capital assets, not depreciated	<u>137,642</u>	<u>119,927</u>	<u>(53,168)</u>	<u>--</u>	<u>204,401</u>
Capital assets, depreciated:					
Buildings	334,981	13,098	--	(42,001)	306,078
Infrastructure	128,340	40,437	--	42,001	210,778
Equipment	10,841	670	(183)	--	11,328
Total capital assets, depreciated	<u>474,162</u>	<u>54,205</u>	<u>(183)</u>	<u>--</u>	<u>528,184</u>
Less accumulated depreciation:					
Buildings	(190,402)	(11,814)	--	41,689	(160,527)
Infrastructure	(97,573)	(7,255)	--	(41,689)	(146,517)
Equipment	(8,170)	(615)	170	--	(8,615)
Total accumulated depreciation	<u>(296,145)</u>	<u>(19,684)</u>	<u>170</u>	<u>--</u>	<u>(315,659)</u>
Total capital assets depreciated, net	<u>178,017</u>	<u>34,521</u>	<u>(13)</u>	<u>--</u>	<u>212,525</u>
Total capital assets, net	<u>\$ 315,659</u>	<u>\$ 154,448</u>	<u>\$ (53,181)</u>	<u>\$ --</u>	<u>\$ 416,926</u>

Note: Total depreciation expense for the year ended June 30, 2010 was \$19,684.

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

***Note 11 – Interfund Receivables, Payables, and Transfers***

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

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

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

The composition of interfund balances as of June 30, 2010, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Airport	General Fund	<u>\$ 1</u>
Total Interfund Receivables		<u>\$ 1</u>
General Fund	Airport	\$ 1,521
Internal Service Funds	Airport	423
Other Government Funds	Airport	1
Total Interfund Payables		<u>\$ 1,945</u>

***Note 12 – New Accounting Pronouncements***

The following summarizes recent GASB pronouncements implemented or effective in the years ended June 30, 2011 and 2010:

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

In June 2007, GASB issued Statement No. 51, *Accounting and Reporting for Intangible Assets*. This statement establishes criteria for an intangible asset, accounting and reporting treatment, internally generated intangible assets, and amortization of an asset. Examples of such assets include easements, water rights, timber rights, patents, trademarks, and computer software. The statement also requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The Airport implemented this statement in the year ended June 30, 2010.

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

*Note 12 – New Accounting Pronouncements (continued)*

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses how state and local governments should recognize, measure, and disclose information regarding derivative instruments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Examples of derivative instruments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The Airport implemented this statement in the year ended June 30, 2010. The County Treasurer's Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County's investment pools.

The following summarizes recent GASB pronouncements:

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

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

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

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

***Note 12 – New Accounting Pronouncements (continued)***

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

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*. This statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty’s credit support provider, is replaced. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2011, which requires the Airport to implement this statement in the year ended June 30, 2012. Currently, the County Treasurer’s Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County’s investment pools.

***Note 13 – Pollution Remediation Obligation***

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

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

The Airport started implementing the new remediation method in the fiscal year ending June 30, 2011 and the sites are estimated to be remediated in about six to ten years. The Airport is still performing tests on the sites and the results could possibly affect the estimated pollution remediation liability as well as a change to the remedial technologies used to remediate the sites. The Airport has reported a liability of \$1,374 based on management’s assessment and the results of the consultant’s evaluation.

**JOHN WAYNE AIRPORT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEARS ENDED JUNE 30, 2011 AND 2010**  
**(to the nearest thousand)**

***Note 13 – Pollution Remediation Obligation (continued)***

In 1995, the Airport entered into Memorandum of Understanding (MOU) with one of its fixed-base operators (FBO) lessees to address the remediation of the Old Fuel Farm. The FBO was identified as the operator of the site and the other responsible party. The lessee agreed to be obligated to pay 50% of the remediation costs associated with the Old Fuel Farm site. The expected recoveries for the Old Fuel Farm site are realizable and a receivable in the amount of \$0 and \$394 was recorded as of June 30, 2011 and 2010, respectively. Pollution remediation recoveries are reported in the Statement of Net Assets as part of accounts receivable.

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

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

The estimated pollution remediation obligation as of June 30, 2010 was:

Old Fuel Farm Site	\$ 787
Former Fire Station #33 Site	695
Net Pollution Remediation Obligation	<u>\$ 1,482</u>

***Note 14 – Subsequent Event(s)***

The following events occurred subsequent to June 30, 2011:

**Terminal C Project**

In November 2011, the Terminal C project was completed and operating for its intended use. The Terminal C project added approximately 282,000 square feet to the Airport which included the addition of six new commercial passenger gates to the Airport, modified two existing gates to accommodate the processing of international passengers by United States Customs and Border Protection (CBP) staff, replaced two temporary commuter hold rooms with two permanent facilities located at the north and south end of the Airport, added new security screening checkpoints, three baggage carousels and increased food/beverage and news/gift concessions.

**Parking Structure C**

The new Parking Structure C opened in November 2011 in conjunction with the completion of the Terminal C Project. The structure is approximately 725,000 square feet and provides approximately 2,000 parking spaces. Parking Structure C replaced the B1 Parking Structure which accommodated 1,240 parking spaces.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Supervisors  
County of Orange, California

We have audited the financial statements of John Wayne Airport (the Airport) an enterprise fund of the County of Orange, California (the County) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 14, 2011. Our report included an explanatory paragraph stating that the financial statements present only the Airport and do not purport to, and do not, present fairly the financial position of the County of Orange as of June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

*Vannich, Travis, DMS Co, LLP*

Laguna Hills, California  
November 14, 2011