

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, 2009 and 2008

**JOHN WAYNE AIRPORT
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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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 (the County) as of and for the years ended June 30, 2009 and 2008, 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

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, 2009 and 2008, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12, the Airport has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009, 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.

Vavrinch, Train, Douglas Co, LLP

Rancho Cucamonga, California
December 7, 2009

**JOHN WAYNE AIRPORT
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008
(to the nearest thousand)**

	2009	2008
ASSETS		
Current assets:		
Cash	\$ 5,911	\$ 14,019
Pooled cash and investments with Treasurer	105,781	111,920
Specific investments with Treasurer	12,032	45,446
Imprest cash	14	14
Accounts receivable	4,431	4,492
Interest receivable	620	628
Due from County of Orange	24	1,492
Due from other governmental agencies	838	2,451
Prepaid expenses	126	1,507
Current restricted assets:		
Restricted cash and investments with trustee	3,964	16,092
Pooled cash and investments held for others	688	892
Pooled cash and investments with Treasurer	26,449	19,538
Passenger Facility Charges (PFC) receivable	2,517	2,278
Deposits in lieu of cash	39,399	39,286
Total current assets	202,794	260,055
Noncurrent restricted assets:		
Investments with trustee	4,630	17,962
Capital assets:		
Land	15,678	15,678
Buildings	334,981	337,805
Equipment	10,841	10,544
Infrastructure - runways, taxiways and aprons	128,340	128,340
Construction in progress	121,964	71,298
Less accumulated depreciation	(296,145)	(279,257)
Total capital assets	315,659	284,408
Other noncurrent assets:		
Investments with Treasurer	37,178	12,043
Long-term debt issuance costs	454	464
Total noncurrent assets	357,921	314,877
TOTAL ASSETS	\$ 560,715	\$ 574,932

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
STATEMENTS OF NET ASSETS (CONTINUED)
JUNE 30, 2009 AND 2008
(to the nearest thousand)

	2009	2008
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 10,816	\$ 14,021
Salaries payable	542	442
Interest payable	892	2,462
Deferred revenue	2,619	3,095
Due to County of Orange	1,981	1,661
Pollution remediation obligation (Note 5 and 13)	170	--
Compensated employee absences (Note 1 and 5)	1,001	956
Current liabilities payable from restricted assets:		
Bonds payable, net of deferred amounts on refundings and premiums (Note 5)	2,331	12,648
Deposits from others	40,087	40,178
Total current liabilities	60,439	75,463
Noncurrent liabilities:		
Arbitrage rebate payable (Note 5)	31	--
Pollution remediation obligation (Note 5 and 13)	918	--
Compensated employee absences (Note 1 and 5)	1,070	664
Bonds payable, net of deferred amounts on refundings and premiums (Note 5)	31,171	77,248
Total noncurrent liabilities	33,190	77,912
TOTAL LIABILITIES	93,629	153,375
NET ASSETS		
Invested in capital assets, net of related debt	282,468	194,976
Restricted for debt service	7,702	31,592
Restricted for PFC	27,935	19,853
Restricted for capital projects - replacements and renewals	1,000	1,000
Unrestricted	147,981	174,136
TOTAL NET ASSETS	\$ 467,086	\$ 421,557

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)

	2009	2008
OPERATING REVENUES		
Terminal space rental	\$ 18,713	\$ 18,654
Auto parking	36,591	36,130
Concessions	23,394	24,821
Landing fees	11,893	11,448
Revenue from use of property	12,805	11,181
Charges for services	3,155	3,200
Aircraft tiedown fees	1,552	1,629
Total operating revenues	108,103	107,063
OPERATING EXPENSES		
Professional and specialized services	32,387	30,233
Salaries and employee benefits	17,255	15,451
Other services and supplies	18,107	17,491
Depreciation	19,939	18,589
Total operating expenses	87,688	81,764
Operating income	20,415	25,299
NONOPERATING REVENUES (EXPENSES)		
Interest income	4,976	8,630
Interest expense	(5,602)	(5,749)
Bankruptcy settlement proceeds	730	665
Other revenues (net)	1,639	2,501
PFC revenue	16,993	19,078
Total nonoperating revenues (expenses)	18,736	25,125
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEMS		
	39,151	50,424
Capital grant contributions	7,466	12,809
Special Item	--	(6,835)
CHANGES IN NET ASSETS		
	46,617	56,398
TOTAL NET ASSETS BEGINNING OF YEAR, AS RESTATED (NOTE 14)	420,469	365,159
TOTAL NET ASSETS END OF YEAR	\$ 467,086	\$ 421,557

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 108,447	\$ 101,828
Payments to suppliers for goods and services	(50,078)	(46,802)
Payments to employees for services	(16,704)	(15,469)
Internal activity - receipts from other funds	1,788	(1,702)
Other receipts	677	2,782
Net cash provided (used) by operating activities	<u>44,130</u>	<u>40,637</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental revenues	76	464
Net cash provided (used) by in noncapital financing activities	<u>76</u>	<u>464</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(53,440)	(38,758)
Cash contributed to an irrevocable trust to defease debt (Note 5)	(45,367)	--
Principal payments on long-term debt	(13,480)	(12,765)
Interest paid on long-term debt	(4,566)	(2,462)
Bond issuance costs paid on long-term debt	(143)	--
Proceeds from capital grant contributions	8,191	14,174
Proceeds from sale of capital assets	1,581	3
Receipts from PFC	16,754	20,079
Net cash provided (used) in capital and related financing activities	<u>(90,470)</u>	<u>(19,729)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (Purchases) of investments, net	(11,802)	9,452
Interest received on investments	4,984	9,122
Net cash provided (used) by investing activities	<u>(6,818)</u>	<u>18,574</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,082)	39,946
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>207,921</u>	<u>167,975</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 154,839</u>	<u>\$ 207,921</u>

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)**

	<u>2009</u>	<u>2008</u>
RECONCILIATION OF OPERATING INCOME TO NET		
CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 20,415	\$ 25,299
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED/USED BY OPERATING ACTIVITIES:		
Depreciation	19,939	18,589
Other Revenue (Expense)	646	2,782
(INCREASES) DECREASES IN ASSETS:		
Accounts receivable	61	(447)
Due from County of Orange	1,468	(1,443)
Prepaid expenses	1,381	612
Deposits in lieu of cash	(113)	(7,792)
INCREASES (DECREASES) IN LIABILITIES:		
Accounts payable	(965)	310
Salaries payable	100	89
Deferred revenue	487	(2,306)
Due to County of Orange	320	(259)
Compensated employee absences payable	451	(107)
Deposits from others	(91)	5,310
Arbitrage rebate payable	31	--
Net cash provided (used) by operating activities	<u>\$ 44,130</u>	<u>\$ 40,637</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS		
Cash	\$ 5,911	\$ 14,019
Pooled cash and investments	105,781	111,920
Pooled cash and investments held for others	688	892
Pooled cash and investments with Treasurer	26,449	19,538
Imprest cash	14	14
Investments with Treasurer	49,210	57,489
Investments with Trustee	8,594	34,054
Total	<u>196,647</u>	<u>237,926</u>
Less: Investments with original maturities of three months or more	<u>(41,808)</u>	<u>(30,005)</u>
TOTAL CASH AND CASH EQUIVALENTS	<u><u>\$ 154,839</u></u>	<u><u>\$ 207,921</u></u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Acquisition of capital assets with accounts payable	\$ 8,004	\$ 10,244
Change in fair value of investments not considered cash or cash equivalents	4	57
Write-off of discontinued construction projects	(36)	--
Accrued capital grant contribution receivable	687	2,376
Capital grant contribution deferred revenue liability	--	963
Accrued PFC receivable	2,517	2,278
Useful life adjustment of the Parking Structure B1 capital asset	(1,799)	(6,835)

See accompanying notes to financial statements.

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(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, 2009 AND 2008
(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 275,000 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 will be 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, is near completion. 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. The new terminal and the replacement parking structure are slated for completion in 2011. Refer to Note 15 – Subsequent Event(s) for additional information. The construction of the Central Plant is a major non-AIP project which will support the production of chilled water for the air conditioning system and electric power for the entire Airport. The design and construction contract for the Central Plant was awarded in FY 2008-09. Refer to Note 9 – Contingencies and Commitments for additional information.

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, 2009 AND 2008
(to the nearest thousand)

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (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. Related PFC receivables are also reported as current restricted assets.

During the fiscal years ended June 30, 2009 and 2008, \$16,754 and \$20,079 in PFC revenue was collected and \$9,347 and \$9,548 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 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.

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. 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

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)

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

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.

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.

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 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.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)

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

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 \$725,177. 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.

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, 2009 and 2008, the Airport reported restricted net assets of \$36,637 and \$52,445, respectively, restricted for debt service, Passenger Facility Charges and replacements and renewals, of which \$27,935 and \$19,853 was restricted by enabling legislation, respectively.

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

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)**

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

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.

Total Airport cash and investments at fair value as of June 30, 2009 and June 30, 2008 were as follows:

Cash and Pooled Cash and Investments:	2009	2008
Cash on hand	\$ 5,925	\$ 14,033
Pooled cash and investments	132,918	132,350
Total Cash and Pooled Cash and Investments	<u>138,843</u>	<u>146,383</u>
Investments:		
With Treasurer	49,210	57,489
With Trustee	8,594	34,054
Total Investments	<u>57,804</u>	<u>91,543</u>
Total Cash and Investments	<u>\$ 196,647</u>	<u>\$ 237,926</u>

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.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)

Note 2 – Cash and Investments (continued)

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 \$49,210 and \$57,489 at June 30, 2009 and June 30, 2008 respectively, of which \$12,032 and \$45,446, 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.

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 \$95 and \$61 were invested in the Pool and are included in restricted pooled cash and investments held for others as of June 30, 2009 and 2008, respectively.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)

Note 2 – Cash and Investments (continued)

Investments

As of June 30, 2009, the Airport had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
With Treasurer:		
U.S. Government Agencies	\$ 30,441	0.19
Commercial Paper	2,000	0.04
Negotiable Certificates of Deposit	2,000	0.06
Medium Term Notes	9,203	0.16
Money Market Mutual Funds	5,566	--
Total investments with Treasurer	<u>\$ 49,210</u>	0.15 *
With Trustee:		
Guaranteed Investment Contracts	\$ 8,387	2.21
Cash	176	--
Money Market Mutual Funds	31	--
Total investments with Trustee	<u>\$ 8,594</u>	2.16 *

As of June 30, 2008, the Airport had the following investments:

	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
With Treasurer:		
U.S. Government Agencies	\$ 27,216	0.11
Commercial Paper	16,612	0.06
Negotiable Certificates of Deposit	6,000	0.11
Medium Term Notes	1,067	0.10
Money Market Mutual Funds	6,594	--
Total investments with Treasurer	<u>\$ 57,489</u>	0.08 *
With Trustee:		
Guaranteed Investment Contracts	\$ 8,326	2.78
Cash	103	--
Money Market Mutual Funds	25,625	--
Total investments with Trustee	<u>\$ 34,054</u>	0.68 *

* Portfolio weighted average maturity

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)

Note 2 – Cash and Investments (continued)

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, 2009 and 2008, the WAM for the Pool approximated 225 and 204 days, respectively, and for Investments with Treasurer approximated 55 and 31 days, respectively. Investments with Trustee are not limited in maturity as these 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.

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.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
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Note 2 – Cash and Investments (continued)

At June 30, 2009, 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&P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Total</u>
<u>Pool Investments:</u>				
Asset-Backed Securities	NR	NR	NR	0.70%
U.S. Government Agencies				
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	7.59%
Federal Farm Credit Bank	AAA	Aaa	AAA	9.00%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	4.13%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	14.68%
Freddie Mac Discount Notes	AAA	Aaa	AAA	2.95%
Freddie Mac Bonds	AAA	Aaa	AAA	18.26%
Commercial Paper	A-1	P-1	F1	8.54%
Negotiable Certificates of Deposit	A-1	P-1	F1	3.05%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	2.57%
Corporate Notes	AA	Aa	AA	6.71%
Corporate Notes	AAA	Aaa	AAA	7.25%
Corporate Notes	AA	Aa	NR	0.85%
Municipal Debt	A-1	P-1	F1	4.07%
Money Market Mutual Funds	AAA	Aaa	AAA	9.65%
Total Pool				<u>100.00%</u>
<u>Investments With Treasurer:</u>				
U.S. Government Agencies				
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	24.71%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	5.14%
Federal Farm Credit Bank	AAA	Aaa	AAA	11.20%
Freddie Mac Bonds	AAA	Aaa	AAA	20.81%
Commercial Paper	A-1	P-1	F1	4.06%
Negotiable Certificates of Deposit				
Certificates of Deposit/Yankee CD	AA	Aaa	AA	4.07%
Medium-Term Notes	A	Aa	A	18.70%
Money Market Mutual Funds	AAA	Aaa	AAA	11.31%
Total investments with Treasurer				<u>100.00%</u>

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 2 – Cash and Investments (continued)

<u>Investments With Trustee:</u>	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Total</u>
Guaranteed Investment Contracts	NR	NR	NR	97.59%
Cash				2.05%
Money Market Mutual Funds	AAA	Aaa	AAA	0.36%
Total investments with Trustee				<u>100.00%</u>

At June 30, 2008, 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&P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Total</u>
<u>Pool Investments:</u>				
U.S. Treasuries	AAA	Aaa	AAA	3.68%
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	3.50%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	4.74%
Federal Farm Credit Bank	AAA	Aaa	AAA	8.06%
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	6.77%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	4.62%
Freddie Mac Discount Notes	AAA	Aaa	AAA	1.91%
Freddie Mac Bonds	AAA	Aaa	AAA	7.98%
Commercial Paper	A-1	P-1	F1	26.01%
Negotiable Certificates of Deposit	A-1	P-1	F1	8.58%
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	4.15%
Corporate Notes	AA	A	NR	1.18%
Corporate Notes	AAA	Aaa	AAA	8.17%
Corporate Notes	D	NR	NR	1.15%
Repurchase Agreements	NR	NR	NR	6.38%
Money Market Mutual Funds	AAA	Aaa	AAA	3.12%
Total Pool				<u>100.00%</u>

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 2 – Cash and Investments (continued)

<u>Investments With Treasurer:</u>	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>	<u>% of Total</u>
U.S. Government Agencies				
Federal Home Loan Bank Discount Notes	AAA	Aaa	AAA	14.24%
Federal National Mortgage Association Discount Notes	AAA	Aaa	AAA	12.08%
Freddie Discount Notes	AAA	Aaa	AAA	21.02%
Commercial Paper	A-1	P-1	F1	28.89%
Negotiable Certificates of Deposit				
Certificates of Deposit/Yankee CD	A-1	P-1	F1	6.96%
Certificates of Deposit	AA	Aa	AA	3.48%
Medium-Term Notes	A	Aa	NR	1.86%
Money Market Mutual Funds	AAA	Aaa	AAA	11.47%
Total investments with Treasurer				<u>100.00%</u>
 <u>Investments With Trustee:</u>				
Guaranteed Investment Contracts	NR	NR	NR	24.45%
Cash				0.30%
Money Market Mutual Funds	AAA	Aaa	AAA	75.25%
Total investments with Trustee				<u>100.00%</u>

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

**JOHN WAYNE AIRPORT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
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Note 3 – Defined Benefit Pension Plan (continued)

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, in writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, California 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 2008-09 and 2007-08, the employer’s contribution rate as a percentage of covered payroll for General members was 22.20% and 22.56%, 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 defined in the 1997 Ventura decision. Employee contributions under current contracts are calculated only on base salary, which excludes other additional items of compensation.

The Airport’s total payroll was \$12,835 and \$11,330 and the payroll for employees covered by OCERS was \$12,820 and \$11,309 for the years ended June 30, 2009 and 2008, 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>
2007	\$ 2,034	100%
2008	2,188	100%
2009	2,529	100%

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 3 – Defined Benefit Pension Plan (continued)

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 www.ac.ocgov.com/finrpt.asp.

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.

Funding Policy: As an enterprise fund of the County of Orange, the Airport was required to contribute 2.5% of its payroll for the year ended June 30, 2009. The Airport’s required contribution and percentage contributed for the current fiscal year and the prior fiscal year were the following:

<u>For Year Ending June 30</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$ 385	100%
2009	299	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 www.ac.ocgov.com/finrpt.asp.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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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 1997

In July 1987, the Airport issued the Revenue Bonds, Series 1987 (1987 Bonds) in the amount of \$242,440 to finance the construction of new facilities at John Wayne Airport. In April 1997, the Airport issued the Airport Revenue Refunding Bonds, Series 1997 (1997 Bonds) in the amount of \$135,050 with interest rates ranging from 5.00% to 6.00% to advance refund \$131,490 of outstanding 1987 Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$9,666. This difference, reported in the accompanying financial statements as a deferred amount on refunding of 1997 Bonds, is being charged to operations using the effective interest method.

On May 6, 2009, the Airport executed an in-substance defeasance of the 1997 Bonds, for the outstanding carrying principal balance of \$44,155. The Airport contributed \$45,367, the outstanding principal amount and interest, to an irrevocable escrow trust account. The amounts were invested in certain United States Treasury Securities that will be used for the redemption of the 1997 Bonds on July 1, 2009. As of June 30, 2009, the debt is considered to be extinguished.

Airport Revenue Refunding Bonds, Series 2003

In May 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. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$10,828. This difference,

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 5 – Long-Term Obligations (continued)

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 and interest for 2003 Bonds as of June 30, 2009 was \$37,678 and \$9,629, respectively.

The Airport Revenue Refunding Bonds are secured by a pledge of (1) operating revenues, net of specified operating expenses, (2) interest earnings, and (3) other revenue. The 2003 Bonds are payable through July 2018 and the 1997 Bonds will be redeemed in July 2009. For each fiscal year, net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For FY 2008-09, principal and interest paid and total net revenues were \$18,046 and \$45,700 respectively.

Revenue bonds outstanding and related activity for the year ended June 30, 2009, were as follows:

	Balance at July 1, 2008	Additions	Deductions	Balance at June 30, 2009	Due in 1 year
<u>Airport Revenue Refunding</u>					
<u>Bonds Series 1997</u>	\$ 54,900	\$ --	\$ (54,900)	\$ --	\$ --
Bond Premium	(134)	--	134	--	--
Deferred Amount on Refunding	(490)	--	490	--	--
<u>Airport Revenue Refunding</u>					
<u>Bonds Series 2003</u>	38,790	--	(2,735)	36,055	2,865
Bond Premium	2,014	--	(391)	1,623	339
Deferred Amount on Refunding	(5,184)	--	1,008	(4,176)	(873)
Total	<u>\$ 89,896</u>	<u>\$ --</u>	<u>\$ (56,394)</u>	<u>\$ 33,502</u>	<u>\$ 2,331</u>

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 5 – Long-Term Obligations (continued)

Revenue bonds outstanding and related activity for the year ended June 30, 2008, were as follows:

	Balance at July 1, 2007	Additions	Deductions	Balance at June 30, 2008	Due in 1 year
<u>Airport Revenue Refunding</u>					
Bonds Series 1997	\$ 65,035	\$ --	\$ (10,135)	\$ 54,900	\$ 10,745
Bond Premium	(145)	--	11	(134)	(46)
Deferred Amount on Refunding	(529)	39	--	(490)	(169)
<u>Airport Revenue Refunding</u>					
Bonds Series 2003	41,420	--	(2,630)	38,790	2,735
Bond Premium	2,450	--	(436)	2,014	391
Deferred Amount on Refunding	(6,306)	1,122	--	(5,184)	(1,008)
Total	<u>\$ 101,925</u>	<u>\$ 1,161</u>	<u>\$ (13,190)</u>	<u>\$ 89,896</u>	<u>\$ 12,648</u>

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

Year Ending June 30,	2003 Revenue Bonds		
	Principal	Interest	Total
2010	\$ 2,865	\$ 1,713	\$ 4,578
2011	3,015	1,566	4,581
2012	3,165	1,411	4,576
2013	3,325	1,249	4,574
2014	3,495	1,078	4,573
2015-2019	20,190	2,612	22,802
Total	<u>\$ 36,055</u>	<u>\$ 9,629</u>	<u>\$ 45,684</u>

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 5 – Long-Term Obligations (continued)

Other long-term liability activity for the years ended June 30, 2009 and 2008, respectively, were as follows:

	Balance at July 1, 2008, As Restated	Additions	Deductions	Balance at June 30, 2009	Due in 1 year
Other Long-Term Liabilities:					
Compensated Employee Absences	\$ 1,620	\$ 1,943	\$ (1,492)	\$ 2,071	\$ 1,001
Arbitrage Rebate Payable	--	31	--	31	--
Pollution Remediation Obligation	1,088	--	--	1,088	170
Total Other Long-Term Liabilities	<u>\$ 2,708</u>	<u>\$ 1,974</u>	<u>\$ (1,492)</u>	<u>\$ 3,190</u>	<u>\$ 1,171</u>

	Balance at July 1, 2007	Additions	Deductions	Balance at June 30, 2008	Due in 1 year
Other Long-Term Liabilities:					
Compensated Employee Absences	\$ 1,727	\$ 1,064	\$ (1,171)	\$ 1,620	\$ 956

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, 2009 was the following:

	Cost of leased property	Accumulated depreciation of leased property	Total carrying value of leased property
Buildings	\$ 30,867	\$ (17,262)	\$ 13,605
Land	2,430		2,430
Balance at June 30, 2009	<u>\$ 33,297</u>	<u>\$ (17,262)</u>	<u>\$ 16,035</u>

The cost and carrying value of the Airport's property under operating leases as of June 30, 2008 was the following:

	Cost of leased property	Accumulated depreciation of leased property	Total carrying value of leased property
Buildings	\$ 34,466	\$ (17,862)	\$ 16,604
Land	2,455		2,455
Balance at June 30, 2008	<u>\$ 36,921</u>	<u>\$ (17,862)</u>	<u>\$ 19,059</u>

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 6 – Property Leased to Others (continued)

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2009 are as follows:

<u>Year Ending June</u>	<u>Future Minimum</u>
2010	\$ 37,899
2011	31,957
2012	16,242
2013	3,365
2014	2,449
2015-2019	2,369
2020-2024	1,684
2025-2030	730
Total	<u>\$ 96,695</u>

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 \$26,311 and \$26,818 for the years ended June 30, 2009 and 2008, respectively.

Note 7 – Commitments under Operating Leases

Lease expense was \$505 and \$415 for the years ended June 30, 2009 and 2008, respectively. As of June 30, 2009, there was \$60 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 \$18,334 and \$21,114 for the years ended June 30, 2009 and 2008, respectively.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 9 – Contingencies and Commitments

Commitments

At June 30, 2009, the Airport was committed under contracts for the following construction projects:

Design and Construction of the Central Plant	\$	26,663
Terminal Building Gate Expansion		15,179
Design of the New Parking Structure C		4,492
Construction of Passenger Loading Bridges		3,548
New South Remain-Over-Night (RON) Parking Area		1,988
Other		5,476
	<u>\$</u>	<u>57,346</u>

Note 10 – Changes in Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance at June 30, 2008	Additions	Deductions	Adjustments	Balance at June 30, 2009
Capital assets, not depreciated:					
Land	\$ 15,678	\$ --	\$ --	\$ --	\$ 15,678
Construction in progress	71,298	50,759	(93)	--	121,964
Total capital assets, not depreciated:	<u>86,976</u>	<u>50,759</u>	<u>(93)</u>	<u>--</u>	<u>137,642</u>
Capital assets, depreciated:					
Buildings	337,805	--	(2,824)	--	334,981
Infrastructure	128,340	--	--	--	128,340
Equipment	10,544	533	(236)	--	10,841
Total capital assets, depreciated	<u>476,689</u>	<u>533</u>	<u>(3,060)</u>	<u>--</u>	<u>474,162</u>
Less accumulated depreciation:					
Buildings	(179,003)	(14,223)	2,824	--	(190,402)
Infrastructure	(92,524)	(5,049)	--	--	(97,573)
Equipment	(7,730)	(667)	227	--	(8,170)
Total accumulated depreciation	<u>(279,257)</u>	<u>(19,939)</u>	<u>3,051</u>	<u>--</u>	<u>(296,145)</u>
Total capital assets depreciated, net	<u>197,432</u>	<u>(19,406)</u>	<u>(9)</u>	<u>--</u>	<u>178,017</u>
Total capital assets, net	<u>\$ 284,408</u>	<u>\$ 31,353</u>	<u>\$ (102)</u>	<u>\$ --</u>	<u>\$ 315,659</u>

Note: Total depreciation expense for the year ended June 30, 2009 was \$19,939.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 10 – Changes in Capital Assets (continued)

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance at June 30, 2007	Additions	Deductions	Adjustments	Balance at June 30, 2008
Capital assets, not depreciated:					
Land	\$ 15,678	\$ --	\$ --	\$ --	\$ 15,678
Construction in progress	25,386	45,926	(14)	--	71,298
Total capital assets, not depreciated:	<u>41,064</u>	<u>45,926</u>	<u>(14)</u>	<u>--</u>	<u>86,976</u>
Capital assets, depreciated:					
Buildings	352,254	--	(10,730)	(3,719)	337,805
Infrastructure	124,621	--	--	3,719	128,340
Equipment	9,961	627	(44)	--	10,544
Total capital assets, depreciated	<u>486,836</u>	<u>627</u>	<u>(10,774)</u>	<u>--</u>	<u>476,689</u>
Less accumulated depreciation:					
Buildings	(171,600)	(12,740)	3,895	1,442	(179,003)
Infrastructure	(85,822)	(5,260)	--	(1,442)	(92,524)
Equipment	(7,137)	(589)	41	(45)	(7,730)
Total accumulated depreciation	<u>(264,559)</u>	<u>(18,589)</u>	<u>3,936</u>	<u>(45)</u>	<u>(279,257)</u>
Total capital assets depreciated, net	<u>222,277</u>	<u>(17,962)</u>	<u>(6,838)</u>	<u>(45)</u>	<u>197,432</u>
Total capital assets, net	<u>\$ 263,341</u>	<u>\$ 27,964</u>	<u>\$ (6,852)</u>	<u>\$ (45)</u>	<u>\$ 284,408</u>

Note: Total depreciation expense for the year ended June 30, 2008 was \$18,589.

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.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 11 – Interfund Receivables, Payables, and Transfers (continued)

The composition of interfund balances as of June 30, 2009, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Airport	Internal Service Funds	\$ 24
Total Interfund Receivables		<u>\$ 24</u>
General Fund	Airport	\$ 1,496
Internal Service Funds	Airport	483
Other Government Funds	Airport	2
Total Interfund Payables		<u>\$ 1,981</u>

The composition of interfund balances as of June 30, 2008, was as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Airport	General Fund	\$ 1,492
Total Interfund Receivables		<u>\$ 1,492</u>
General Fund	Airport	\$ 1,630
Internal Service Funds	Airport	17
Road Fund	Airport	7
Other Government Funds	Airport	7
Total Interfund Payables		<u>\$ 1,661</u>

There were no interfund transfers for the years ended June 30, 2009 and June 30, 2008.

Note 12 – New Accounting Pronouncements

The following summarizes recent GASB pronouncements and their impact, if any, on future financial statements:

In December 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with cleanup efforts in the notes to the financial statements. GASB Statement No. 49 is effective for

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)

Note 12 – New Accounting Pronouncements (continued)

financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. The Airport implemented this statement in FY 2008-09.

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 requirements of this statement are effective for financial statements for periods beginning after June 15, 2009, which requires the Airport to implement this statement in FY 2009-10.

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 requirements of this statement are effective for the financial statements for periods beginning after June 15, 2009, which requires the Airport to implement this statement in FY 2009-10. The County Treasurer's Investment Policy Standards prohibits the purchase of derivative instruments as investments in the County's investment pools.

In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement incorporates the hierarchy of GAAP for state and local governments into the GASB authoritative literature. The goal of this statement is to enhance financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source. The requirements of this statement are effective upon issuance.

In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement incorporates certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' (AICPA) Statements on Auditing Standards into the GASB. The objective of this statement is to enhance financial reporting by contributing to the GASB's efforts to codify all sources of GAAP so that they derive from a single source. The requirements of this statement are effective upon issuance.

**JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)**

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 plans on implementing the new remediation method in FY 2009-10 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 \$1,088 based on management’s assessment and the results of the consultant’s evaluation.

In 1995, the Airport entered into Memorandum of Understanding (MOU) with one of its fixed-based 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 not yet realized or realizable.

The estimated pollution remediation obligation as of June 30, 2009 is:

Old Fuel Farm Site	\$	787
Former Fire Station #33 Site		695
Less: Expected Recoveries (50% Recovery from FBO lessee)		<u>(394)</u>
Net Pollution Remediation Obligation	<u>\$</u>	<u>1,088</u>

Refer to Note 14 – Changes in Accounting Principles for additional information.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)

Note 14 – Changes in Accounting Principles

Per GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*, the provisions of the statement should be applied as of the effective date if the Government does not have sufficient objective and verifiable information at implementation. The Airport will not be restating to periods prior to June 30, 2008 as sufficient objective and verifiable information was not available. During 2008-2009, an evaluation of the affected sites was performed, serving as the basis for the Airport’s reported liability at July 1, 2008. As of the effective date of the statement, the pollution remediation liability was measured as of the beginning of FY 2008-09 and the net assets were restated as follows:

Net Pollution Remediation Obligation as of June 30, 2007	\$	--
Pollution Remediation Obligation		1,482
Less: Expected Recoveries		(394)
Net Pollution Remediation Obligation as of June 30, 2008	\$	<u>1,088</u>

This adjustment is reflected in the Net Assets Beginning of the Year in the Statement of Revenues, Expenses and Changes in Net Assets:

Total Net Assets at June 30, 2008	\$	421,557
GASB Statement No. 49 Adjustment		(1,088)
Total Net Assets at June 30, 2008, Restated	\$	<u>420,469</u>

Refer to Note 13 – Pollution Remediation Obligations for additional information.

Note 15 – Subsequent Event(s)

The following events occurred subsequent to June 30, 2009:

Airport Revenue Bonds, Series 2009A and 2009B

On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009 Bonds) in the aggregate principal amount of \$233,115, with an original issue net premium of \$287. The 2009 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. Refer to Note 1 – Reporting Entity and Summary of Significant Accounting Policies – Description of Reporting Entity for additional information.

JOHN WAYNE AIRPORT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008
(to the nearest thousand)

Note 15 – Subsequent Event(s) (continued)

The 2009 Bonds are limited obligations of the Airport payable from, and secured by, Airport Net Revenues and available Passenger Facility Charge revenues.

Award Contract for the Terminal C Project

On July 21, 2009, the Board of Supervisors awarded and executed the construction contract in the amount of \$102,309 for the Terminal C project to the lowest responsible and responsive bidder. The Terminal C project is a major element of the AIP and consists of the construction of a new Terminal C building and interior renovations of the existing Terminals A and B. Refer to Note 1 – Reporting Entity and Summary of Significant Accounting Policies – Description of Reporting Entity for additional information.

Award Contract for the Parking Structure C Project

On July 21, 2009, the Board of Supervisors awarded and executed the construction contract in the amount of \$34,171 for the Parking Structure C project to the lowest responsible and responsive bidder. The Parking Structure C project is a another component of the AIP and consists of the construction of a new parking structure to replace the former Parking Structure B1 that was deconstructed to make way for Terminal C. Refer to Note 1 – Reporting Entity and Summary of Significant Accounting Policies – Description of Reporting Entity for additional information.



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

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, 2009, and have issued our report thereon dated December 7, 2009. Our report included an explanatory paragraph regarding the Airport's adoption of the provisions of GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations*, as of July 1, 2008. 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

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 opinions 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Airport's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Airport's financial statements that is more than inconsequential will not be prevented or detected by the Airport's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Airport's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 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, and grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Varrinich, Train, Day & Co., LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 7, 2009