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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

For the Year Ended June 30, 2016

JOHN WAYNE AIRPORT

Financial Statements

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MGO Certified Public Accountants

Independent Auditor's Report

To the Honorable Board of Supervisors
County of Orange, California

Report on the Financial Statements

We have audited the accompanying financial statements of John Wayne Airport (Airport), an enterprise fund of the County of Orange, California (County) as of and for the year ended June 30, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Macias Gini & O'Connell LLP
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Newport Beach, CA 92660

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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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only Airport, an enterprise fund of the County, and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2016, the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 3-11 presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information preceding the financial statements and independent auditor's report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express opinion or provide any assurance on it.

Macias Gini & O'Connell LLP

Newport Beach, California

December 15, 2016

Management's Discussion and Analysis (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

As management of John Wayne Airport, Orange County (Airport), we offer readers of the Airport's financial statements this narrative overview and analysis of the financial activities of the Airport for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the information furnished in the Airport's financial statements.

FINANCIAL HIGHLIGHTS

- The Airport's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $654,090 (net position) at June 30, 2016. Of this amount, $232,828 (unrestricted net position) may be used to meet the ongoing obligations of the Airport, $24,204 (restricted net position) was externally restricted for specific purposes, and $397,058 was the net investment in capital assets.
- Current and other assets, excluding capital assets, increased by $37,148 or 11.6% from June 30, 2015, primarily due to an increase in cash and investments.
- Total net position increased by $34,472 or 5.6% for the year ended June 30, 2016. This increase consists of operating income of $17,268, nonoperating revenues of $15,030, and capital grant contributions of $2,174.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Airport is a department of the County of Orange (County) and uses an enterprise fund to account for its operations.

The Airport's financial statements are divided into two components:

- Financial statements: Statement of Net Position; Statement of Revenues, Expenses, and Change in Net Position; Statement of Cash Flows.
- Notes to Financial Statements.

The financial statements are prepared using the full accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America.

- Statement of Net Position is the statement of financial position for the Airport. Airport assets and liabilities, both financial and capital, short-term and long-term, and deferred outflows and inflows, are presented in this statement. Current assets and liabilities are reasonably expected to be realized or liquidated within one year.
- Statement of Revenues, Expenses, and Change in Net Position is the statement of operations for the Airport. All Airport revenues and expenses during the year, regardless when cash is received or paid, are presented in this statement.
- Statement of Cash Flows is the financial statement classifying the Airport's cash and cash equivalent receipts (inflows) and payments (outflows) resulting from operating, noncapital financing, capital and related financing, or investing activities.

Management's Discussion and Analysis (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

- Notes to Financial Statements provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements.

Refer to Note 1 to the financial statements, Reporting Entity and Summary of Significant Accounting Policies, for additional information.

FINANCIAL ANALYSIS

Net position may serve as a useful indicator of the Airport's financial position. At June 30, 2016, the Airport's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $654,090.

NET POSITION:

	2016	2015	2016 vs 2015 $ Change	2016 vs 2015 % Change
ASSETS				
Current and other assets	$ 357,983	$ 320,835	$ 37,148	11.6 %
Capital assets	582,687	587,392	(4,705)	(0.8) %
TOTAL ASSETS	940,670	908,227	32,443	3.6 %
TOTAL DEFERRED OUTFLOWS OF RESOURCES	10,126	6,301	3,825	60.7 %
LIABILITIES				
Current liabilties	61,419	56,977	4,442	7.8 %
Noncurrent liabilities	231,000	234,190	(3,190)	(1.4) %
TOTAL LIABILITIES	292,419	291,167	1,252	0.4 %
TOTAL DEFERRED INFLOWS OF RESOURCES	4,287	3,743	544	14.5 %
NET POSITION				
Net investment in capital assets	397,058	394,642	2,416	0.6 %
Restricted net position	24,204	78,862	(54,658)	(69.3) %
Unrestricted net position	232,828	146,114	86,714	59.3 %
TOTAL NET POSITION	$ 654,090	$ 619,618	$ 34,472	5.6 %

At June 30, 2016, the largest component of the Airport's net position (60.7%) was its net investment in capital assets (e.g., land, structures and improvements, equipment, infrastructure, construction in progress, intangible assets, and intangible assets in progress), less any related outstanding debt used to acquire these assets. The Airport uses these capital assets to provide services to its passengers and visitors. Accordingly, these assets are not available for future spending. Although the Airport's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay the debt must be provided from operating activities or other sources, since the capital assets cannot be liquidated to fulfill these liabilities.

Management's Discussion and Analysis (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

At June 30, 2016, an additional component of the Airport's net position (3.7%) represents resources that are subject to external usage restrictions such as reserve for debt service, Passenger Facility Charges (PFC), and replacements and renewals for capital projects. The remaining net position balance of $232,828 (35.6%) is unrestricted and may be used to meet the Airport's ongoing obligations.

COMPARISON BETWEEN THE YEARS ENDED JUNE 30, 2016 AND 2015:

The Airport's total assets increased by $32,443 or 3.6%. Current and other assets increased by $37,148 or 11.6% primarily due to a net increase of $31,468 in current pooled cash and investments with Treasurer and current restricted pooled cash and investments with Treasurer, as the Airport had more unspent cash from business operations. Capital assets decreased by $4,705 or 0.8% primarily due to the current year depreciation and amortization, partially offset by the additions to capital assets. Refer to Note 10 to the financial statements, Changes in Capital Assets, for additional information.

The Airport's total liabilities increased by $1,252 or 0.4%. Current liabilities increased by $4,442 or 7.8% primarily due to an increase of $3,539 in deposits from others as a result of increase in deposits in lieu of cash. Noncurrent liabilities decreased by $3,190 or 1.4% mainly due to a decrease of $7,655 for retirement of long-term debt obligations, partially offset by a $4,473 increase in net pension liability. Refer to Note 5, Long-Term Obligations, for additional information.

Management's Discussion and Analysis (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

REVENUES, EXPENSES, AND CHANGE IN NET POSITION:

	2016	2015	2016 vs 2015 $ Change	2016 vs 2015 % Change
OPERATING REVENUES				
Terminal space rental	$ 22,428	$ 21,399	$ 1,029	4.8 %
Auto parking	40,869	40,401	468	1.2 %
Concessions	30,088	28,873	1,215	4.2 %
Landing fees	15,058	13,714	1,344	9.8 %
Revenue from use of property	15,240	13,356	1,884	14.1 %
Charges for services	3,868	3,148	720	22.9 %
Aircraft tiedown fees	1,635	1,557	78	5.0 %
Total operating revenues	129,186	122,448	6,738	5.5 %
OPERATING EXPENSES				
Professional and specialized services	38,377	37,581	796	2.1 %
Salaries and employee benefits	19,711	19,142	569	3.0 %
Other services and supplies	24,896	26,024	(1,128)	(4.3) %
Depreciation and amortization	28,934	28,561	373	1.3 %
Total operating expenses	111,918	111,308	610	0.5 %
Operating income	17,268	11,140	6,128	55.0 %
NONOPERATING REVENUES (EXPENSES)				
Interest income	2,189	913	1,276	139.8 %
Interest expense	(9,105)	(9,697)	592	(6.1) %
Bankruptcy settlement proceeds	1,180	957	223	23.3 %
Fines and penalties	186	164	22	13.4 %
Gain (loss) on disposition of capital assets	1	(4,067)	4,068	(100.0) %
Other revenue (expense) - net	57	84	(27)	(32.1) %
PFC revenue	20,522	18,951	1,571	8.3 %
Total nonoperating revenues	15,030	7,305	7,725	105.7 %
INCOME BEFORE CAPITAL GRANT CONTRIBUTIONS	32,298	18,445	13,853	75.1 %
Capital grant contributions	2,174	9,215	(7,041)	(76.4) %
CHANGE IN NET POSITION	34,472	27,660	6,812	24.6 %
TOTAL NET POSITION, BEGINNING OF YEAR	619,618	591,958	27,660	4.7 %
TOTAL NET POSITION, END OF YEAR	$ 654,090	$ 619,618	$ 34,472	5.6 %

During the year ended June 30, 2016, the Airport's change in net position increased by $34,472 or 5.6%.

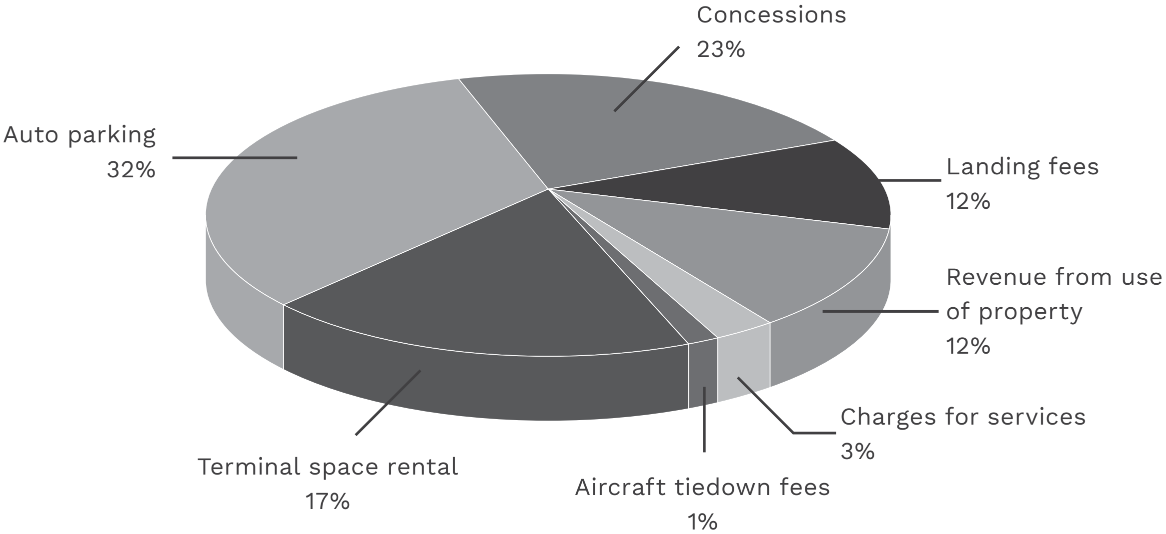
Management's Discussion and Analysis (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

COMPARISON BETWEEN THE YEARS ENDED JUNE 30, 2016 AND 2015:

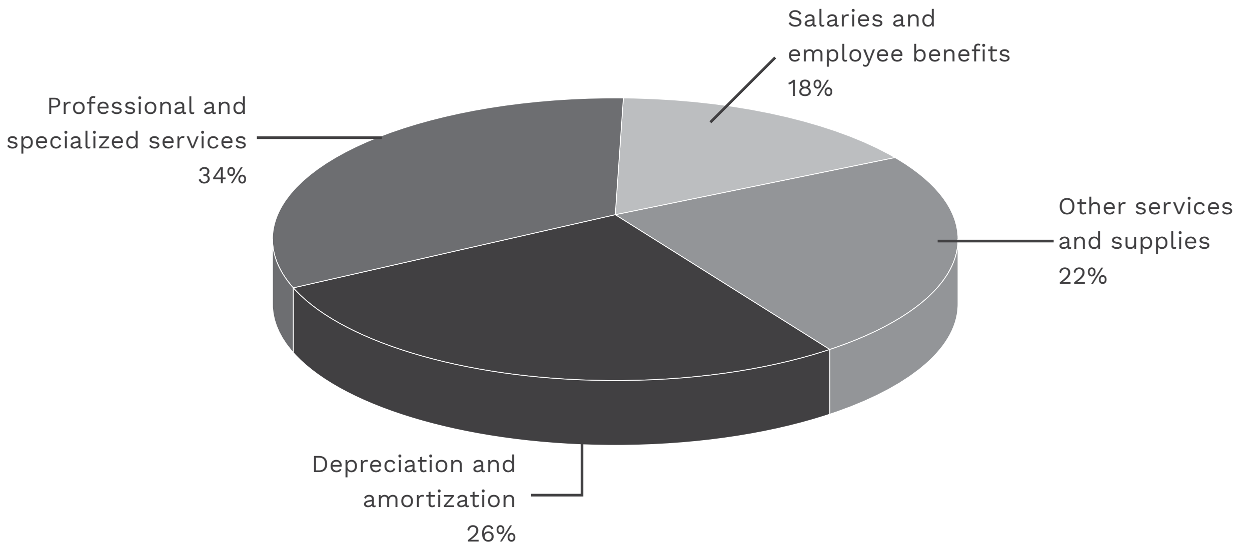
The Airport's operating revenues increased by $6,738 or 5.5% primarily due to an increase in terminal space rental, concessions, landing fees, and revenue from use of property.

OPERATING REVENUES FY 2016



The Airport's operating expenses increased slightly by $610 or 0.5% primarily due to an increase in professional and specialized service and also salaries and employee benefits, offset by a decrease in other services and supplies.

OPERATING EXPENSES FY 2016



Management's Discussion and Analysis (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

For the year ended June 30, 2016, the Airport's nonoperating revenues increased by $7,725 or 105.7% primarily due to an increase in interest income, PFC revenue, and gain on disposition of capital assets. Capital grant contributions decreased by $7,041 or 76.4% due to a decrease in cost reimbursements for federally funded construction projects.

CAPITAL ASSETS

The Airport's capital assets as of June 30, 2016 amounted to $582,687, net of accumulated depreciation and amortization. The investment in capital assets includes land, construction in progress, intangible assets in progress, structures and improvements, equipment, infrastructure (runways, taxiways and aprons), and intangible assets. The total change in capital assets for the year ended June 30, 2016 was a decrease of $4,705 or 0.8%.

CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION AND AMORTIZATION):

	2016	2015	2016 vs 2015 $ Change	2016 vs 2015 % Change
CAPITAL ASSETS				
Land	$ 15,678	$ 15,678	$ --	0.0 %
Construction in progress	27,318	24,220	3,098	12.8 %
Intangible assets in progress	1,833	812	1,021	125.7 %
Structures and improvements	486,200	493,252	(7,052)	(1.4) %
Equipment	2,848	2,934	(86)	(2.9) %
Infrastructure	48,154	50,134	(1,980)	(3.9) %
Intangible assets	656	362	294	81.2 %
TOTAL CAPITAL ASSETS	$ 582,687	$ 587,392	$ (4,705)	(0.8) %

Major capital asset events during the year ended June 30, 2016 included the following:

- Completion of Terminal A and B Baggage Handling System at an approximate cost of $14,785.
- Completion of Campus Drive to Bristol Street Right Turn Lane at an approximate cost of $1,851.

The construction costs may include capitalized interest. For additional information regarding capitalization of interest, refer to Note 1 to the financial statements, Reporting Entity and Summary of Significant Accounting Policies.

At June 30, 2016, the Airport was committed under contracts for construction projects in amount of $104,249. Refer to Note 9 to the financial statements, Commitments, for more information.

Management's Discussion and Analysis (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

LONG-TERM DEBT OBLIGATIONS

At June 30, 2016, the Airport had total bond obligation of $195,126. The debt is secured by a pledge of operating revenues, net of specified operating expenses, interest earnings, other miscellaneous revenues, and available PFC revenue.

The following summarizes the Airport's outstanding bonds at June 30, 2016:

	2016	2015	2016 vs 2015 $ Change	2016 vs 2015 % Change
LONG-TERM DEBT OBLIGATIONS				
Airport Revenue Bonds, Series 2009A	$ 60,750	$ 62,290	$ (1,540)	(2.5) %
Airport Revenue Bonds, Series 2009B	136,320	141,985	(5,665)	(4.0) %
Add: Premium/(Discount) on Bonds Payable	(1,944)	(1,740)	(204)	11.7 %
TOTAL LONG-TERM DEBT OBLIGATIONS	$ 195,126	$ 202,535	$ (7,409)	(3.7) %

During the year ended June 30, 2016, the decrease in the outstanding bonds was due to principal payments and amortization of bond premiums/discounts.

There were no changes to the Airport's underlying debt ratings as compared to the previous year. The Airport maintains the following long-term underlying debt ratings:

	Standard & Poor's	Moody's	Fitch
LONG-TERM DEBT RATINGS			
June 30, 2016			
Airport Revenue Bonds, Series 2009A and 2009B	AA-	Aa3	AA-
June 30, 2015			
Airport Revenue Bonds, Series 2009A and 2009B	AA-	Aa3	AA-

Additional information on the Airport's long-term debt obligations can be found in Note 5 to the financial statements, Long-Term Obligations.

OTHER POTENTIALLY SIGNIFICANT MATTERS

AIRPORT CAPITAL IMPROVEMENT PROGRAM AND FINANCIAL PLANNING:

The major capital projects that were completed in the fiscal year ended June 30, 2016 were the Campus Dr./Bristol St. Right Turn Lane and the Terminal A & B Baggage Handling System Enhancement projects. Significant capital projects slated for the next three years are the multiple components of Terminal Improvements, Taxiway Bravo Rehabilitation, Station 18 Improvement, Central Plant Improvement, and Parking Structure C Phase II. The construction of Paularino Street Gate Improvement is scheduled to start in 2017.

Management's Discussion and Analysis (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

The construction phase of the multi-year $118 million Terminal Improvements Project began in January 2016. The project covers numerous safety, code compliance, comfort, convenience and aesthetic improvements primarily in Terminals A and B. Also included are architectural improvements; structural and non-structural seismic upgrade of Terminals A & B; electrical infrastructure; heating, ventilation and air-conditioning (HVAC); mechanical systems; plumbing systems; lighting systems; Americans with Disabilities Act (ADA) compliance; Information Technology (IT) systems; security and closed circuit television (CCTV) systems; and fire sprinkler and alarm systems. These improvements not only extend the useful lives of the terminal components, but will enhance the existing facilities' aesthetics and infrastructure, allowing guests of JWA and visitors to Orange County to experience a uniform level of quality throughout the Riley Terminal complex. Construction is expected to continue through 2019.

The capital costs are funded from Airport revenues and Federal Aviation Administration (FAA) Airport Improvement Program grants. As is the case with any substantial capital improvement program, the Airport anticipates encountering many challenges in balancing the current level of operation and high standards for customer service with the substantial construction activity.

In February 2016, the Airport filed an amendment to the original PFC application with the FAA to reduce the approved PFC Bond Capital and Bond Financing Interest amounts, reallocate these amounts to PFC Pay-As-You-Go (PAYGO) on approved PFC projects, and request update to the costs of the approved PFC projects based on actual eligible costs of the completed projects. The amendment was approved by the FAA in March 2016, which allows the Airport to reallocate $65.5 million of restricted PFC funds to unrestricted PAYGO funds for the completed projects.

The credit card industry established October 1, 2015, as the deadline to implement a new global credit card standard equipped with chip technology (known as EMV-Europay, MasterCard and Visa or Chip and Pin). After this date, the credit card issuers are shifting the liability to the merchants for any fraud resulting from the merchants' inability to process EMV transactions. The Airport began upgrading the Common Use Passenger Processing System (CUPPS) to allow airlines to comply with the new credit card standard by replacing and upgrading all CUPPS equipment and kiosks to accept the new chip-enabled credit card transactions. The upgrade also added baggage self-tagging capability to the CUPPS equipment as requested by the airlines. The CUPPS upgrade is expected to be completed in the year ending June 30, 2017.

SETTLEMENT AGREEMENT AND PASSENGER TRAFFIC:

In 1985, the County, the City of Newport Beach, and two community groups reached a Settlement Agreement (Agreement) on operational and facility growth at the Airport. The most recent amendment to this Agreement was approved by the same four signatories in 2014 and extended the term through December 31, 2030. The amendment allows the operational capacity at the Airport to remain at currently authorized 10.8 MAP through December 31, 2020, but provides for an increase to 11.8 MAP through December 31, 2025 and to 12.2 MAP or 12.5 MAP through December 31, 2030, depending on the actual service level from 2021 to 2025.

The Airport has posted monthly passenger traffic increases since 2015, and reached a record high of over 10.3 million passengers in the year ended June 30, 2016. The increases can be attributed to multiple flights added by Southwest Airlines, as well as overall increases by other airlines at the Airport. Alaska Airlines began nonstop international flights to Los Cabos and Puerto Vallarta, Mexico in October 2015.

Management's Discussion and Analysis (Unaudited)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

Horizon and Compass, two new entrant carriers began flight services at the Airport in March and May 2016 respectively, and new carriers have been added to the waiting list. Finally, the Airport continues to pursue all avenues to obtain a Port of Entry designation which is important to its ability to maintain and attract international air service.

For additional information related to construction or any other information provided in the report, refer to the Airport's website at http://www.ocair.com or submit to John Wayne Airport, Finance, 3160 Airway Ave., Costa Mesa, CA 92626.

Statement of Net Position

JUNE 30, 2016 (TO THE NEAREST THOUSAND)

ASSETS		
Current assets:		
Cash (Note 2)	$	10,208
Pooled cash and investments with Treasurer (Note 2)		213,207
Cash Equivalents/Specific investments with Treasurer (Note 2)		24,845
Imprest cash (Note 2)		14
Accounts receivable		5,227
Interest receivable		564
Due from other governmental agencies		2,314
Prepaid expenses		1,898
Restricted cash and investments with trustee (Note 2)		13,589
Restricted pooled cash and investments held for others (Note 2)		710
Restricted pooled cash and investments with Treasurer (Note 2)		13,564
Restricted Passenger Facility Charges (PFC) receivable		2,141
Restricted Deposits in lieu of cash		31,429
Total current assets		319,710
Noncurrent assets:		
Specific investments with Treasurer (Note 2)		25,246
Restricted Investments with trustee (Note 2)		13,027
Capital assets (Note 10):		
Land		15,678
Construction in progress		27,318
Intangible assets in progress		1,833
Structures and improvements		757,825
Equipment		12,444
Infrastructure - runways, taxiways and aprons		226,469
Intangible assets		781
Less: accumulated depreciation/amortization		(459,661)
Total capital assets, net		582,687
Total noncurrent assets		620,960
TOTAL ASSETS		940,670
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension (Note 3)		10,126
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	10,126

See accompanying notes to financial statements.

Statement of Net Position (Continued)

JUNE 30, 2016 (TO THE NEAREST THOUSAND)

LIABILITIES		
Current liabilities:		
Accounts payable	$	7,965
Salaries payable		1,047
Interest payable (Note 5)		5,090
Unearned revenue		3,463
Due to County of Orange (Note 8)		2,648
Due to other governmental agencies		178
Compensated employee absences (Note 5)		1,133
Intangible assets obligations payable		101
Bonds payable, net (Note 5)		7,655
Deposits from others		32,139
Total current liabilities		61,419
Noncurrent liabilities:		
Pollution remediation obligation (Notes 5 and 12)		994
Compensated employee absences (Note 5)		909
Intangible assets obligations payable		140
Bonds payable, net (Note 5)		187,471
Net pension liability (Note 3)		41,486
Total noncurrent liabilities		231,000
TOTAL LIABILITIES		292,419
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension (Note 3)		4,287
TOTAL DEFERRED INFLOWS OF RESOURCES		4,287
NET POSITION		
Net investment in capital assets		397,058
Restricted for debt service		8,499
Restricted for PFC (Note 1)		14,705
Restricted for capital projects - replacements and renewals		1,000
Unrestricted		232,828
TOTAL NET POSITION	$	654,090

See accompanying notes to financial statements.

Statement of Revenues, Expenses, and Change in Net Position

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

OPERATING REVENUES		
Terminal space rental		
Auto parking	$	22,428
Concessions		40,869
Landing fees		30,088
Revenue from use of property		15,058
Charges for services		15,240
Aircraft tiedown fees		3,868
Total operating revenues		1,635
		129,186
OPERATING EXPENSES		
Professional and specialized services		38,377
Salaries and employee benefits		19,711
Other services and supplies		24,896
Depreciation and amortization (Note 10)		28,934
Total operating expenses		111,918
Operating income		17,268
NONOPERATING REVENUES (EXPENSES)		
Interest income		2,189
Interest expense (Note 1)		(9,105)
Bankruptcy settlement proceeds		1,180
Fines and penalties		186
Gain (loss) on disposition of capital assets		1
Other revenue (expense) - net		57
PFC revenue (Note 1)		20,522
Total nonoperating revenues		15,030
INCOME BEFORE CAPITAL GRANT CONTRIBUTIONS		32,298
Capital grant contributions		2,174
CHANGE IN NET POSITION		34,472
TOTAL NET POSITION, BEGINNING OF YEAR		619,618
TOTAL NET POSITION, END OF YEAR	$	654,090

See accompanying notes to financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 128,296
Payments to suppliers	(62,416)
Payments to employees	(18,416)
Internal activity - receipts from other funds	11
Other receipts	1,647
Other payments	(164)
Net cash provided by operating activities	48,958
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Intergovernmental revenues	153
Net cash provided by noncapital financing activities	153
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and construction of capital assets	(24,293)
Principal payments on long-term debt	(7,205)
Interest paid on long-term debt	(10,338)
Proceeds from capital grant contributions	3,717
Proceeds from sale of capital assets	15
Receipts from PFC	20,287
Net cash used in capital and related financing activities	(17,817)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sales (purchases) of investments, net	4,730
Interest received on investments	2,058
Net cash provided by investing activities	6,788
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,082
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	238,055
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 276,137

See accompanying notes to financial statements.

Statement of Cash Flows (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$	17,268
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization		28,934
Fines and penalties		186
Other revenue		1,663
Other expense		(164)
(INCREASES) DECREASES IN:		
Accounts receivable		(922)
Due from County of Orange		11
Due from other governmental agencies		(184)
Prepaid expenses		25
Deposits in lieu of cash		(3,903)
Deferred outflows of resources		(3,825)
INCREASES (DECREASES) IN:		
Accounts payable		895
Salaries payable		151
Unearned revenue		395
Due to other governmental agencies		(17)
Compensated employee absences		(111)
Deposits from others		3,539
Net pension liability		4,473
Deferred inflows of resources		544
Net cash provided by operating activities	$	48,958
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET POSITION		
Cash	$	10,208
Pooled cash and investments with Treasurer		213,207
Specific investments with Treasurer		50,091
Imprest cash		14
Restricted investments with trustee		26,616
Restricted pooled cash and investments held for others		710
Restricted pooled cash and investments with Treasurer		13,564
Total		314,410
Less: Specific investments with original maturities of 90 days or more		(25,246)
Investments held with trustee for debt service reserve requirement		(13,027)
TOTAL CASH AND CASH EQUIVALENTS	$	276,137
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Acquisition of capital assets with accounts payable	$	3,289
Change in fair value of investments not considered cash or cash equivalents		(121)
Accrued capital grant contribution receivable		1,912

See accompanying notes to financial statements.

Notes to Financial Statements

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF REPORTING ENTITY

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

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

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

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

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

In December 2000, the County’s 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.

In 2003, prior to the 2005 expiration of the Agreement, the signatories approved a series of amendments to the Agreement that allowed for additional facilities and operational capacity, while continuing to provide environmental protections for the local community.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DESCRIPTION OF REPORTING ENTITY (CONTINUED)

The amended Agreement enhanced capacity at the Airport by increasing: (i) the number of regulated flights through December 31, 2015; (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.

Since early 2012, the four signatories began discussing a second extension of the Settlement Agreement. The parties reached agreement on project objectives as well as the definition of a "proposed project" and project alternatives to be analyzed pursuant to the California Environmental Quality Act (CEQA).

On September 30, 2014, the proposed project, project alternatives, and final EIR, in support of amendments to the Settlement Agreement previously approved by the signatories, was presented to the Board. The Board approved the proposed Agreement amendment and certified EIR 617.

The amendment allows the operational capacity at the Airport to remain at the currently authorized 10.8 MAP through December 31, 2020, and provides for an increase to 11.8 MAP through December 31, 2025, and to 12.2 MAP or 12.5 MAP through December 31, 2030 depending on the actual service level from 2021 to 2025. The amendment maintains the Airport's curfew through December 31, 2035, provides for an increase in the number of regulated flights allocated to passenger commercial carriers at the Airport, and eliminates the limit on permitted number of commercial passenger loading bridges beginning on January 1, 2021.

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

BASIS OF PRESENTATION - FUND ACCOUNTING

The 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.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING AND ESTIMATES

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

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

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

CAPITAL ASSETS

Capital assets including infrastructure assets, purchased or constructed by the Airport are capitalized at cost, while contributed properties are recorded at fair 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, $5 for intangible assets, $150 for infrastructure, and $0 for land. Depreciation and amortization are calculated on a straightline basis over the estimated useful lives of the related assets, which range from 3 to 20 years for equipment and intangible assets and 10 to 60 years for infrastructure and structures and improvements. No depreciation or amortization is provided on construction in progress or intangible assets in progress until the project is completed and the asset is placed in service.

CAPITALIZATION OF INTEREST

Interest incurred during the construction phase is included as part of the capitalized cost of the capital assets constructed. For 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 year ended June 30, 2016 were $9,975 and $870, respectively.

BONDS PAYABLE AND BOND PREMIUMS/DISCOUNTS

Bonds payable is reported net of applicable premiums or discounts. Bond premiums and discounts are amortized over the term of the bond using the effective interest rate method.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (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 with a financial institution.

CASH EQUIVALENTS

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

POOLED CASH AND INVESTMENTS

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

SPECIFIC INVESTMENTS WITH TREASURER

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

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 $917,686. The related insurance premium is recorded as an Airport expense. The Airport also participates in the County's self-insured programs for general and automobile liability insurance, workers' compensation, group health indemnified insurance plans, group salary continuance plan, group dental plan, and unemployment benefits plan. The Airport records its portion of the related self-insurance premiums charged by the County as an expense. The related liabilities are accrued by the County's self-insurance internal service fund based on estimated future amounts to be paid on known claims and incurred but not reported claims, including loss adjustment expenses.

COMPENSATED EMPLOYEE ABSENCES

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

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPONENTS OF NET POSITION

Net investment in capital assets - This amount is derived by subtracting the outstanding debt incurred by the Airport to buy or construct capital assets, net of accumulated depreciation, shown in the Statement of Net Position. Capital assets cannot readily be sold and converted to cash.

Restricted - This category represents restrictions imposed on the use of the Airport's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. As of June 30, 2016, the Airport reported restricted net position of $24,204 for debt service, Passenger Facility Charges (PFC) and replacements and renewals for capital projects, of which $14,705 was restricted by enabling legislation.

Unrestricted - This category consists of net position that does not meet the definition of net investment in capital assets or restricted.

POLICY REGARDING USE OF RESTRICTED VS. UNRESTRICTED RESOURCES

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

PASSENGER FACILITY CHARGES

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

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

In March 2016, the FAA approved the Airport's PFC Amendment application to reduce the approved PFC Bond Capital and Bond Financing Interest amounts, and reallocate these amounts by increasing Pay-As-You-Go (PAYGO) on approved PFC projects. The estimated costs of the originally approved PFC projects were updated in the PFC Amendment to reflect the actual and final eligible costs. With the approval of the PFC Amendment, the Airport was authorized to reallocate $65,524 for eligible costs of the completed PFC projects to unrestricted PAYGO funds. The amended total approved PFC revenue to be collected is $311,602 through December 31, 2021.

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

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PASSENGER FACILITY CHARGES (CONTINUED)

During the year ended June 30, 2016, $20,522 PFC revenue was reported and $76,598 was expended on approved PFC projects. Total expenditures included $11,074 for Bond Capital and Financing Interest and $65,524 for PFC PAYGO.

CONCENTRATIONS

A significant portion of the Airport's revenues are directly or indirectly attributed to the activity of a number of major airlines. The Airport's revenues could be materially and adversely affected should any of these major airlines discontinue operations and should the Airport be unable to replace those airlines with similar activity. The level of operations is determined based upon the relative share of enplaned passengers. The three largest airlines in terms of enplaned passengers accounted for approximately 47%, 15%, and 13% of market share during the year ended June 30, 2016.

NOTE 2 – CASH AND INVESTMENTS

The Airport's investment policy guidelines allow for the same types of investments as the Board approved IPS. Types of investments allowed are U.S. Treasury securities, U.S. government agency securities, municipal debt, medium-term notes, bankers' acceptances, commercial paper, negotiable certificates of deposits, State of California Local Agency Investment Fund, repurchase agreements, money market mutual funds, investment pools, and supranational securities. Investments maintained by trustees are governed by the related bond indentures.

Total Airport cash and investments at fair value as of June 30, 2016 was as follows:

Cash and pooled cash and investments:		
Cash on hand	$	10,222
Pooled cash and investments, restricted		14,274
Pooled cash and investments		213,207
Total cash and pooled cash and investments		237,703
Investments:		
With Treasurer		50,091
With trustee, restricted		26,616
Total investments		76,707
Total cash and investments	$	314,410

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

CASH

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

SPECIFIC INVESTMENTS WITH TREASURER

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

The investment balance was $50,091 at June 30, 2016, of which $24,845, are considered cash equivalents with original maturities of 90 days or less.

POOLED CASH AND INVESTMENTS

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

DEPOSITS AND INVESTMENTS WITH TRUSTEE

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

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

DEPOSITS AND INVESTMENTS

As of June 30, 2016, the Airport has the following investments:

		Total	Weighted Average Maturity (Years)	
With Treasurer:				
U.S. Government Agencies	$	41,374	0.18	
Negotiable Certificates of Deposit		3,350	0.06	
Medium-Term Notes		502	0.40	
Money Market Mutual Funds		4,865	--	
Total	$	50,091	0.16	*
With trustee:				
U.S. Treasuries	$	13,718	0.24	
Money Market Mutual Funds		12,898	--	
Total	$	26,616	0.13	*

* 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. In accordance with the IPS, the Treasurer manages exposure to declines in fair value by limiting the weighted average maturity (WAM) to 60 days for any short-term pool and the maximum maturity to 397 days for short-term pool if short-term and long-term pools are used. At June 30, 2016, the WAM for the Pool approximated 397 days, and the WAM for specific investments with Treasurer approximated 58 days.

CUSTODIAL CREDIT RISK

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

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

CREDIT RISK

This is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. The IPS sets forth the minimum acceptable credit ratings for investments from any two of the following nationally recognized statistical rating organizations: Standard & Poor's (S&P), Moody's, or Fitch. For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P- 1 (Moody's), or F1 (Fitch). For an issuer of long-term debt, the rating must be no less than A.

CONCENTRATION OF CREDIT RISK

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. In accordance with the IPS, the following diversification limits must be applied at the time of purchase of a security.

Type of Investment	Orange County IPS	IPS Maximum Final Maturity (Long-Term Fund)	IPS Maximum Final Maturity (Short-Term Fund)
U.S. Treasury Securities	100%	5 Years	397 Days
U.S. Government Agency Securities	100% Total, no more than 33% in one issuer excluding securities with final maturities of 30 days or less	5 Years	397 Days
Municipal Debt	30% Total, no more than 5% in one issuer except 10%-County of Orange	5 Years	397 Days
Medium-Term Notes	30% Total, no more than 5% in one issuer	5 Years	397 Days
Bankers' Acceptances	40% Total, no more than 5% in one issuer	180 Days	180 Days
Commercial Paper	40% Total, no more than 5% in one issuer	270 Days	270 Days
Negotiable Certificates of Deposits	30% Total, no more than 5% in one issuer	5 Years	397 Days
State of California Local Agency Investment Fund	$50 million per pool	N/A	N/A
Repurchase Agreements	20% Total, no more than 10% in one issuer	1 Year	1 Year
Money Market Mutual Funds	20% Total	N/A	N/A
Investment Pools	20% Total, no more than 10% in one pool	N/A	N/A
Supranationals	30% Total, no more than 5% in one issuer	5 Years	397 Days

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

CONCENTRATION OF CREDIT RISK (CONTINUED)

At June 30, 2016, 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):

	S&P	Moody's	Fitch	% of Total
Pool Investments:				
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	A-1	P-1	F1	1.23%
Federal National Mortgage Association Bonds	AA	Aaa	AAA	12.17%
Federal Farm Credit Bank Discount Notes	A-1	P-1	F1	1.74%
Federal Farm Credit Bank Bonds	AA	Aaa	AAA	6.68%
Federal Home Loan Bank Discount Notes	A-1	P-1	F1	11.18%
Federal Home Loan Bank Bonds	AA	Aaa	NR	10.95%
Federal Home Loan Mortgage Corporation Bonds	AA	Aaa	AAA	16.62%
Negotiable Certificates of Deposit	A-1	P-1	F1	4.43%
Medium-Term Corporate Notes				
Corporate Notes	AA	Aa	A	1.86%
Corporate Notes	AA	Aa	AA	2.65%
Corporate Notes	AAA	Aaa	AA	1.75%
Municipal Debt	AA	NR	AA	2.12%
U.S. Treasuries	AA	Aaa	AAA	23.13%
Money Market Mutual Funds	AAA	Aaa	NR	3.49%
Total				100.00%

	S&P	Moody's	Fitch	% of Total
Specific Investments with Treasurer:				
U.S. Government Agencies				
Federal National Mortgage Association Discount Notes	A-1	P-1	F1	2.99%
Federal National Mortgage Association Bonds	AA	Aaa	AAA	16.66%
Federal Farm Credit Bank Bonds	AA	Aaa	AAA	20.01%
Federal Home Loan Bank Discount Notes	A-1	P-1	F1	18.20%
Federal Home Loan Bank Bonds	AA	Aaa	NR	15.30%
Federal Home Loan Mortgage Corporation Discount Notes	A-1	P-1	F1	3.34%
Federal Home Loan Mortgage Corporation Bonds	AA	Aaa	AAA	6.10%
Negotiable Certificates of Deposit	A-1	P-1	F1	6.69%
Medium-Term Corporate Notes				
Corporate Notes	AA	Aa	AA	0.80%
Corporate Notes	AAA	Aaa	AAA	0.20%
Money Market Mutual Funds	AAA	Aaa	NR	9.71%
Total				100.00%

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

CONCENTRATION OF CREDIT RISK (CONTINUED)

	S&P	Moody's	Fitch	% of Total
Deposits and Investments with Trustee:				
U.S. Treasuries	AA	Aaa	AAA	51.54%
Money Market Mutual Funds	NR	NR	NR	48.46%
Total				100.00%

FAIR VALUE MEASUREMENTS

The investments are categorized into its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Part of the Airport's cash and investments are combined with the County's pooled investments, and therefore, do not represent specific identifiable investments. The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as described above. For additional details regarding to the Pool investment portfolio and fair value measurements, refer to the County's Comprehensive Annual Financial Report (CAFR). The CAFR is available by accessing the Auditor-Controller's website at http://www.ac.ocgov.com.

As of June 30, 2016, the Airport had the following investments by fair value level:

		Fair Value Measurement		
	Total	Level 1	Level 2	Level 3
With Treasurer:				
U.S. Government Agencies	$ 41,374	$ --	$ 41,374	$ --
Negotiable Certificates of Deposit	3,350	--	3,350	--
Medium-Term Notes	502	--	502	--
Total investments by fair value level	45,226	$ --	$ 45,226	$ --
Investments not subject to fair value hierarchy:				
Money Market Mutual Funds	4,865			
Total	$ 50,091			
With trustee:				
U.S. Treasuries	$ 13,718	$ --	$ 13,718	$ --
Total investments by fair value level	13,718	$ --	$ 13,718	$ --
Investments not subject to fair value hierarchy:				
Money Market Mutual Funds	12,898			
Total	$ 26,616			

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 3 – DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

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

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

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

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

FUNDING POLICY

In accordance with various Board's resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. For the year ended June 30, 2016, the employer's contribution rate as a percentage of covered payroll for general members was 37.02%. The Airport's total contribution to OCERS for the year ended June 30, 2016 was $3,593.

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.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 3 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

FUNDING POLICY (CONTINUED)

As an enterprise fund of the County, the Airport's annual required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

For Year Ended June 30,	Annual Required Contribution		Percentage Contributed
2014	$	3,088	100%
2015		3,352	100%
2016		3,310	100%

NET PENSION LIABILITY, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended June 30, 2016, the County reported a liability of $4,393,466 for its proportionate share of the net pension liability, of which the Airport's allocated share of the County's net plan liability totaled $41,486. The County's net pension liability was measured as of December 31, 2015, and the total pension liability was determined by an actuarial valuation from OCERS as of that date. The Airport's allocated share of the County's net pension liability is based on its percentage of actual employer contributions.

For the year ended June 30, 2016, the Airport recognized pension expense of $4,424, which represents the change in the net pension liability during the measurement period, adjusted for actual contributions and deferred recognition of changes in investment gain/loss, actuarial assumptions, and plan benefits.

Deferred outflows of resources and deferred inflows of resources represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner. At June 30, 2016, the Airport reported deferred outflows of resources and deferred inflows of resources related to pension as follows:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Net difference between projected and actual investment earnings on pension plan investments	$	5,699	$	--
Difference between expected and actual experience		--		2,822
Changes of assumptions		901		1,464
Changes in proportion and differences between Airport contributions and proportionate share of contributions		53		1
Contributions subsequent to measurement date		1,885		--
Prepaid pension contribution		1,588		--
Total	$	10,126	$	4,287

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 3 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

NET PENSION LIABILITY, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (CONTINUED)

$1,885 reported as deferred outflows of resources related to pension resulting from Airport contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017.

The Airport reported the full amount of prepaid pension contribution as a part of the prepaid expenses. However, due to the difference in the Airport's fiscal year end date and the net pension liability measurement date, half of the prepaid pension contribution, $1,588, was recognized as deferred outflows of resources, and the other half remained in prepaid expenses.

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

Year Ending June 30,	Amount
2017	$ 773
2018	773
2019	773
2020	382
2021	(321)
2022	(14)
Thereafter	--

For additional details on the defined benefit pension plan, actuarial assumptions and pension liability, refer to the County's CAFR. The CAFR is available by accessing the Auditor-Controller's website at http://www.ac.ocgov.com.

NOTE 4 – POSTEMPLOYMENT HEALTH CARE BENEFITS

PLAN DESCRIPTION

The Airport is a participant in the County's Retiree Medical Plan. The Retiree Medical Plan is a single employer defined benefit Other Postemployment 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.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 4 – POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

PLAN DESCRIPTION (CONTINUED)

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

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

FUNDING POLICY

As an enterprise fund of the County, the Airport was required to contribute 3.6% of its payroll for the year ended June 30, 2016. The Airport's required contribution and percentage contributed for the current fiscal year and the two prior fiscal years were the following:

For Year Ended June 30,	Required Contribution	Percentage Contributed
2014	$ 483	100%
2015	426	100%
2016	417	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 CAFR. The CAFR is available by accessing the Auditor-Controller's website at http://www.ac.ocgov.com.

NOTE 5 – LONG-TERM OBLIGATIONS

GENERAL

The Airport has outstanding bonds, issued primarily to fund the Airport Improvement Program (AIP). These bonds are payable solely from revenues of the Airport and are not general obligations of the County. Interest is payable semi-annually on July 1 and January 1. The bond indenture agreement requires the Airport to deposit monthly with the trustee 1/12th of the principal amount of bonds maturing on the next July 1 and 1/6th of the interest payable on the next ensuing interest payment date.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

AIRPORT REVENUE BONDS, SERIES 2009A AND 2009B

On July 9, 2009, the Airport issued the Airport Revenue Bonds, Series 2009A and 2009B (2009A and 2009B Bonds) in the aggregate principal amount of $233,115, with an original issue net premium of $288 and interest rates ranging from 3.00% to 5.75%. The 2009A and 2009B Bonds were issued to finance a portion of the Airport Improvement Program (AIP), fund the debt service requirement for the bonds, fund capitalized interest on a portion of the bonds and pay costs relating to the issuance of the bonds. The AIP consist of numerous direct improvements to the Airport facilities such as 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, 2016, the outstanding principal amount, including net discount, of the 2009A and 2009B Bonds were $59,664 and $135,462, respectively. The interest expense of the 2009A and 2009B Bonds for the year ended June 30, 2016 were $3,094 and $7,085, respectively, including accrued interest of $1,547 and $3,543, 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 PFC revenue. The 2009A and 2009B Bonds are payable through July 2039. For each fiscal year, the pledged net operating revenues are expected to be a minimum of 125% of the aggregate debt service requirement over the life of the bonds. For the year ended June 30, 2016, the total principal and interest paid and total net revenues were $17,543 and $60,828 respectively. The total net revenues include $11,197 available PFC revenue for the year ended June 30, 2016.

Revenue bonds outstanding and related activity for the year ended June 30, 2016, were as follows:

	Balance at July 1, 2015	Additions	Deductions	Balance at June 30, 2016	Due in 1 year
Airport Revenue Bonds					
Series 2009A	$ 62,290	$ --	$ (1,540)	$ 60,750	$ 1,595
Bond Premium/(Discount)	(1,081)	--	(5)	(1,086)	(1)
Airport Revenue Bonds					
Series 2009B	141,985	--	(5,665)	136,320	5,935
Bond Premium/(Discount)	(659)	--	(199)	(858)	126
Total	$ 202,535	$ --	$ (7,409)	$ 195,126	$ 7,655

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 5 – LONG-TERM OBLIGATIONS (CONTINUED)

AIRPORT REVENUE BONDS, SERIES 2009A AND 2009B (CONTINUED)

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

	2009A Bonds		2009B Bonds		
Year Ending June 30,	Principal	Interest	Principal	Interest	Total
2017	$ 1,595	$ 3,062	$ 5,935	$ 6,937	$ 17,529
2018	1,655	2,989	6,225	6,633	17,502
2019	1,740	2,913	6,535	6,326	17,514
2020	1,810	2,833	6,845	6,003	17,491
2021	1,900	2,740	7,185	5,652	17,477
2022-2026	11,080	12,069	41,860	22,062	87,071
2027-2031	13,465	8,864	43,485	9,791	75,605
2032-2036	13,715	5,490	9,100	3,647	31,952
2037-2040	13,790	1,494	9,150	991	25,425
Total	$ 60,750	$ 42,454	$ 136,320	$ 68,042	$ 307,566

OTHER LONG-TERM LIABILITIES

Other long-term liability activities for the year ended June 30, 2016 were as follows:

	Balance at July 1, 2015	Additions	Deductions	Balance at June 30, 2016	Due in 1 year
Compensated Employee Absences	$ 2,153	$ 1,685	$ (1,796)	$ 2,042	$ 1,133
Pollution Remediation Obligation	994	--	--	994	--
Total	$ 3,147	$ 1,685	$ (1,796)	$ 3,036	$ 1,133

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (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, fixed based operations (FBO), and other commercial purposes. The cost and carrying value of the Airport's property under operating leases as of June 30, 2016 were as follows:

	Cost of Leased Property	Accumulated Depreciation	Total Carrying Value of Leased Property
Structures and improvements	$ 75,841	$ (22,620)	$ 53,221
Land	2,429	--	2,429
Balance at June 30, 2016	$ 78,270	$ (22,620)	$ 55,650

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2016 are as follows:

Year Ending June 30,	Future Minimum Rent
2017	$ 24,586
2018	23,909
2019	14,763
2020	8,651
2021	8,537
2022-2026	5,068
2027-2031	162
Total	$ 85,676

Airline minimum rental revenues are based on rates adopted by the Board and are subject to change semi-annually in accordance with the related airlines' operating lease agreements. FBO and concession minimum rental revenues are adjusted annually as outlined in the lessees' operating leases.

The Airport also leases property through contingent rentals. Revenues from these contingent rentals arise primarily from a percentage of the lessees' gross revenues. Contingent and FBO rental payments received by the Airport totaled $32,383 for the year ended June 30, 2016.

NOTE 7 – COMMITMENTS UNDER OPERATING LEASES

Lease expense was $145 for the year ended June 30, 2016. As of June 30, 2016, there was $69 in outstanding lease commitments.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 8 – RELATED PARTY TRANSACTIONS

The Airport reimburses the County for the cost of providing security, insurance and other administrative services to the Airport. Amounts charged by other County departments are reported as operating expenses during the year incurred, and totaled $23,228 for the year ended June 30, 2016.

Interfund receivable/payable balances are the result of the time lag between the time goods and services are provided by other County departments to the Airport and payment from the Airport to the other funds is made.

The composition of interfund balances as of June 30, 2016, was as follows:

Due To	Due From		Amount
General Fund	Airport	$	2,396
Internal Service Funds	Airport		214
Other Government Funds	Airport		38
Total Due To County of Orange		$	2,648

NOTE 9 – COMMITMENTS

At June 30, 2016, the Airport was committed under contracts for the following construction projects:

Terminal Improvements	$	94,053
CUPPS Hardware and Software		4,893
Parking Structure C, Phase 2		2,652
Lighting Systems Upgrades		1,288
Other		1,363
Total	$	104,249

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 10 – CHANGES IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance at June 30, 2015	Additions	Deductions	Balance at June 30, 2016
Capital assets, not depreciated/amortized:				
Land	$ 15,678	$ --	$ --	$ 15,678
Construction in progress	24,220	22,909	(19,811)	27,318
Intangible assets in progress	812	1,021	--	1,833
Total capital assets, not depreciated/amortized	40,710	23,930	(19,811)	44,829
Capital assets, depreciated/amortized:				
Structures and improvements	741,638	16,187	--	757,825
Equipment	12,205	597	(358)	12,444
Infrastructure	223,492	2,977	--	226,469
Intangible assets	418	363	--	781
Total capital assets, depreciated/amortized	977,753	20,124	(358)	997,519
Less accumulated depreciation/amortization:				
Structures and improvements	(248,386)	(23,239)	--	(271,625)
Equipment	(9,271)	(669)	344	(9,596)
Infrastructure	(173,358)	(4,957)	--	(178,315)
Intangible assets	(56)	(69)	--	(125)
Total accumulated depreciation/amortization	(431,071)	(28,934)	344	(459,661)
Total capital assets depreciated/amortized, net	546,682	(8,810)	(14)	537,858
Total capital assets, net	$ 587,392	$ 15,120	$ (19,825)	$ 582,687

Total depreciation and amortization expense for the year ended June 30, 2016 was $28,934.

CAPITAL ASSET IMPAIRMENTS

No capital asset impairment was reported by the Airport for the year ended June 30, 2016.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS

The following summarizes recent GASB pronouncements implemented or effective in the year ended June 30, 2016:

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Airport implemented this Statement in the year ended June 30, 2016. Refer to Note 2, Cash and Investments, for additional information.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in order to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The *GAAP hierarchy* consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Airport implemented this Statement in the year ended June 30; however, this statement did not affect the Airport's financial statements.

The following summarizes recent GASB Pronouncements issued but not yet adopted that may impact future financial presentations. The Airport has not determined what, if any, impact implementation of the following Statements may have on future financial statements:

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement establishes new accounting and financial reporting requirements for OPEB plans and replaces GASB Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for periods beginning after June 15, 2016, which requires the Airport to implement this Statement in the year ending June 30, 2017.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement is effective for financial statements for periods beginning after June 15, 2017, which requires the Airport to implement this Statement in the year ending June 30, 2018.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The Airport does not enter into tax abatement agreements; therefore, this Statement does not apply to the Airport's financial statements.

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015, which requires the Airport to implement this Statement in the year ending June 30, 2017.

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for reporting periods beginning after December 15, 2015. This requires the Airport to implement this Statement in the year ending June 30, 2017.

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, which requires the Airport to implement this Statement in the year ending June 30, 2017.

In March 2016, GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, which requires the Airport to implement this Statement in the year ending June 30, 2018.

In March 2016, GASB issued Statement No. 82, *Pension Issues-An Amendment of GASB Statements No. 67, No. 68, and No. 73*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, which requires the Airport to implement this Statement in the year ending June 30, 2017.

NOTE 12 – POLLUTION REMEDIATION OBLIGATION

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

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

Notes to Financial Statements (Continued)

FOR THE YEAR ENDED JUNE 30, 2016 (TO THE NEAREST THOUSAND)

*NOTE 12 – POLLUTION REMEDIATION OBLIGATION **(CONTINUED)***

The Airport started implementing the new remediation method in the fiscal year ending June 30, 2011. Following a remedial pilot test, the Airport has been performing monthly free-product removal at the Old Fuel Farm and performing annual groundwater monitoring at both sites. Active remediation has been delayed pending further guidance from the RWQCB, which could possibly affect the estimated pollution remediation liability as well as cause changes to the remedial technologies used to remediate the sites. As of June 30, 2016, the Airport has a liability of $994 based on management's assessment and the results of the consultant's evaluation of potential remediation costs. The liability will remain unchanged until active remediation begins or a closure plan is accepted by the RWQCB.

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. Reported in the Statement of Net Position as part of accounts receivable, the total expected recovery for the Old Fuel Farm site is $261 as of June 30, 2016.

The estimated pollution remediation obligation as of June 30, 2016 is:

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