JOHN WAYNE AIRPORT
ORANGE COUNTY

| TABLE OF CONTENTS |

» Message from the Director 03

» Orange County Business 05

» World-Class Destination 07

» Airline Partner 09

» Environmental Stewardship 11

» Economic Stability 13

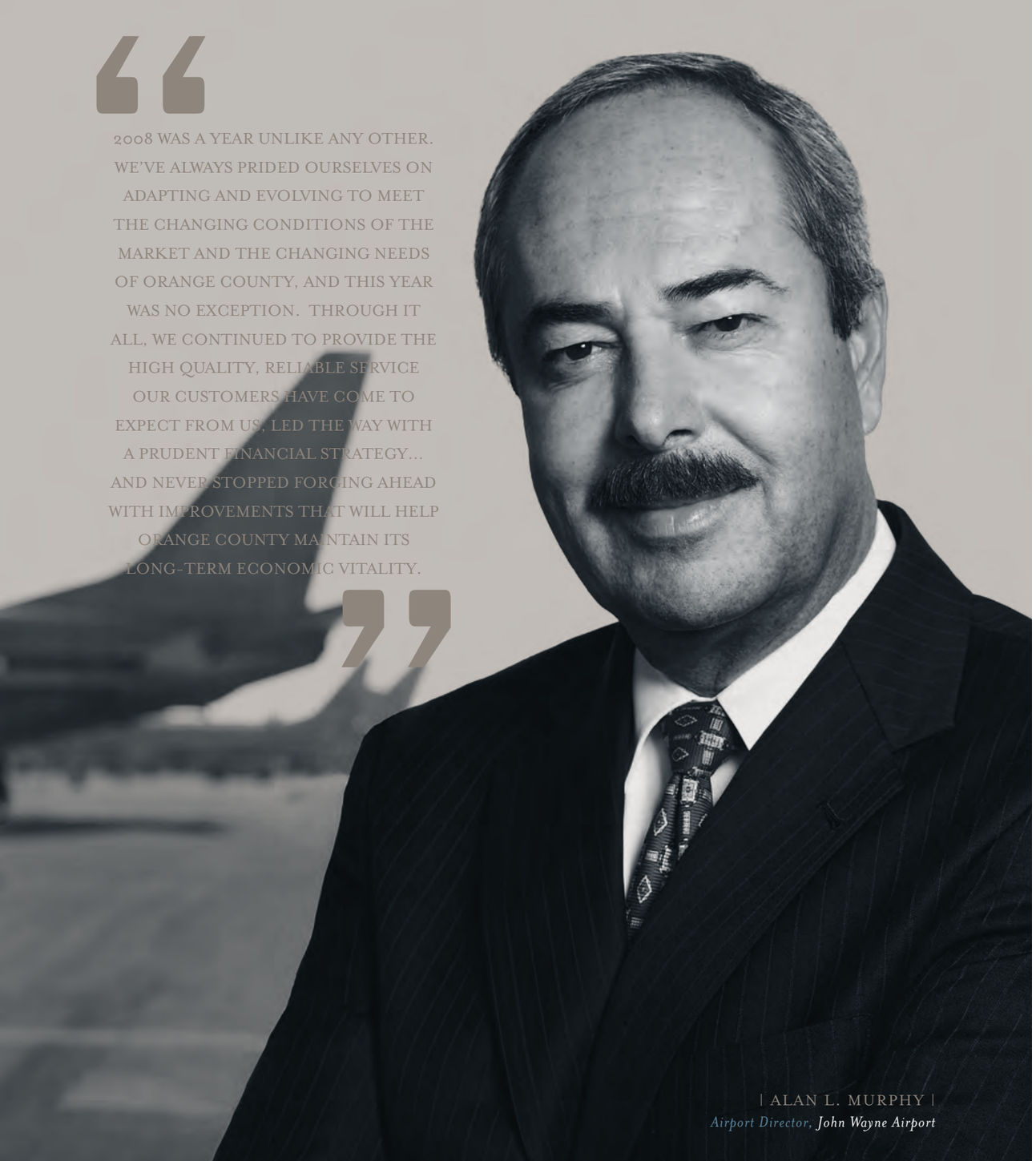
» Fiscal Integrity 15

» Is it unusual for an airport to strive to make fans out of its customers? We think not.

We're dedicated to creating an enjoyable, practically effortless travel experience – after all, we know that people are only passing through John Wayne Airport on their way to a vacation, to finalize a business deal, to reconnect with family and friends, or for hundreds of other reasons. Whether they're traveling to or from Orange County – for the first time or the 50th – our customers can depend on us to help them get where they need to go, comfortably and safely.

With our meticulous attention to day-to-day operations, as well as a strategic focus on our long term goals, it's not only our customers who are taking notice. It's also our air carriers, our neighbors, our local business partners and leaders in our community who are talking about us.

Don't just take our word for it. Read for yourself.



| ALAN L. MURPHY |
Airport Director, John Wayne Airport

| MESSAGE FROM THE DIRECTOR |

» John Wayne Airport has thrived by ensuring the safe passage of millions of people traveling for both business and pleasure. At the heart of what we do is service.

There is perhaps no greater service that I can provide to our employees, our customers, our shareholders, our business partners, and indeed, the entire community we serve – than maintaining a conservative business philosophy and doing what it takes to ensure our financial strength.

By keeping a healthy reserve of cash and holding liquid assets, while maintaining one of the best credit ratings among airports of this size, we're able to improve our facilities and services, all while operating the Airport at the highest standards. This creates a more enjoyable experience for our customers and also creates a significant advantage for our air carriers and all our tenants.

By providing a safe and enjoyable travel experience to people from around the country who are here to visit our famous tourist attractions and amusement parks, attend one of our impressive universities, scout locations for a new business enterprise, or just see family and friends, we're helping to serve the interests of the entire county.

It's a philosophy that reaps measurable dividends: in 2008, we served nearly nine million passengers. As testimony to our ongoing viability, we're also pleased to report that we may soon be welcoming a new air carrier or two to the mix and that our existing airlines will be offering new services to our passengers.

2008 was a challenging year for our community, our industry and our country. But by continuing to make smart business decisions and provide both value and service to our customers, we have positioned ourselves well for 2009 and beyond.

ALAN L. MURPHY

Airport Director, John Wayne Airport

| LUCY DUNN |
President and CEO, Orange County Business Council

| ORANGE COUNTY BUSINESS |

> JOHN WAYNE AIRPORT'S INNOVATIONS, INFRASTRUCTURE IMPROVEMENTS AND EFFICIENT OPERATIONS HELP KEEP THE NATION'S FIFTH LARGEST COUNTY ECONOMICALLY COMPETITIVE. ORANGE COUNTY REMAINS AN IDEAL DESTINATION TO LIVE, WORK AND PLAY!
>
> » LUCY DUNN

» We're so fortunate to call Orange County home. Yes, we enjoy nearly year-round sunshine, but the county, with its dynamic mix of industry, tourism, academic institutions and more, also provides an ideal business environment.

Our local economy is powered by a heterogeneous mix of businesses and industries, which helps protect the county from some of the factors that have troubled other markets across the nation. A recent comprehensive economic study identified 10 different business segments, ranging from computer hardware and electronics to construction to health services, that serve as our economic backbone. While our economy is experiencing challenges, many of these industries remain strong here in Orange County and that helps to buoy the economy as a whole. In fact, Orange County is on trend to add more than 500,000 new jobs by 2025.

Orange County provides John Wayne Airport with an enviable client base: residents have an average household income of $58,605 – nearly $10,000 more than the state average and almost $15,000 more than the national average. According to a recent passenger survey, the mean household income of JWA users ranges from $100,000 - $149,000. Income levels relate strongly to the propensity and ability to travel so we are clearly a beneficiary of Orange County's strong income base.

John Wayne Airport is at the heart of this vibrant business community. We're strengthening the financial future of Orange County – and our own by connecting people, businesses and opportunities.

| ED GRIER |
President, Disneyland Resort

| WORLD-CLASS DESTINATION |

» Orange County continues to attract millions of people from around the world. It's a year-round tourist destination, creating a healthy revenue stream that's a substantial part of the Orange County economic mix. For the last year records were posted, visitors spent a remarkable $7.89 billion here.

In addition to leading theme and amusement parks, Orange County is home to world-class sports teams, an unparalleled collection of retail establishments, and beautiful weather throughout the year. There's something here for practically everyone: from the cultured sophisticates who come for our acclaimed arts and theater scene to families seeking out the simple, timeless joys of a visit to the beach or one of our historic sites.

The Airport's financial picture is strengthened by the fact that the overwhelming majority of our passengers, business and tourism alike, are considered "origin and destination" traffic. That means that most travelers either begin or end their trip in Orange County. For JWA, that means car rentals, parking, concession purchases, and other revenue that enhance our bottom line. For Orange County, it means people are spending money at restaurants, hotels, stadiums and other venues – and that bodes well for all of us.

As the economy begins to rebound through 2009, we expect tourism to continue in its role as a staple of the economy – both Orange County's and our own.

> THE DISNEYLAND RESORT SHARES WITH JOHN WAYNE AIRPORT A COMMITMENT TO INVESTING IN OUR COMMUNITY. THIS IS EVIDENCED BY OUR CURRENT EXPANSION OF DISNEY'S CALIFORNIA ADVENTURE AND JWA'S IMPORTANT GROWTH PLANS. WE ARE OPTIMISTIC ABOUT THE LONG-TERM PROSPECTS FOR TOURISM IN THE SOUTHLAND AND ARE HAPPY TO CALL ORANGE COUNTY HOME.
>
> » ED GRIER

| BOB MONTGOMERY |
Vice President of Properties, Southwest Airlines

| AIRLINE PARTNER |

» We understand that we have a symbiotic relationship with our air carriers: when they succeed, we succeed. We expect them to provide our mutual customers with quality, service and value. And we give them a lot in return.

We're committed to transparency in our financial reporting and provide every airline not only with their own rates and charges, but our entire operating budget, actuals from the previous year and the current year's projections. We consider our air carriers as partners in planning our new facilities: we seek their candid feedback and we're forthright about planning, development and costs.

Unlike many other airports, we own and operate the concourse gates and terminals so all our air carriers are permitted to use and share them. Our ownership of both operating capacity and gates helps ensure they're used to the highest potential. In fact, JWA has historically had the highest gate utilization of any airport in the country.

By maintaining John Wayne Airport at the highest standards for security, safety, reliability and convenience, we've created a favorable environment for the air carriers to do business here in Orange County. Perhaps that's why we have an enviable mix of both legacy and low cost carriers in our lineup.

> IN THESE TUMULTUOUS TIMES, WE ARE GRATEFUL FOR JOHN WAYNE AIRPORT'S STEADY AND CONSISTENT APPROACH TO AIRPORT COSTS AND REVENUES. THEY CONTINUE TO BE A GREAT PARTNER TO THE AIRLINES.
>
> » BOB MONTGOMERY

| LOU MANCINI |
Vice President and General Manager for Commercial Aviation Services, Boeing Commercial Airplanes

| ENVIRONMENTAL STEWARDSHIP |

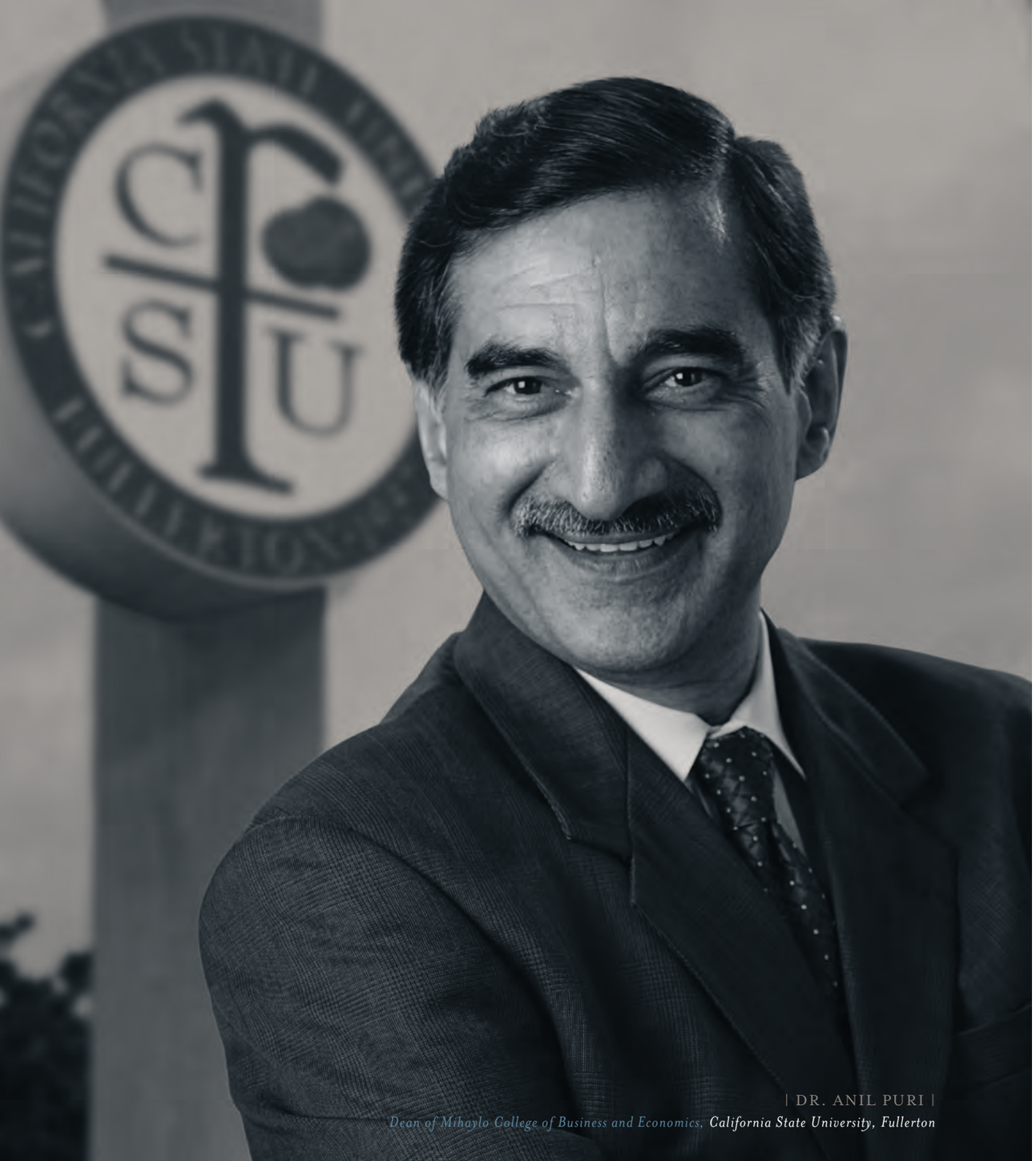
AS THE WORLD'S LEADING AEROSPACE COMPANY AND LARGEST MANUFACTURER OF COMMERCIAL AIRCRAFT, WE LOOK FORWARD TO PROVIDING THE NEXT GENERATION OF QUIETER AND CLEANER AIRCRAFT TO OUR AIRLINE CUSTOMERS. WE LIVE IN THE MODERN AGE IN WHICH WE HAVE THE ABILITY TO LIVE AND WORK AROUND THE WORLD, KNOWING THAT OUR FAMILY AND FRIENDS ARE JUST A PLANE RIDE AWAY – WE GREATLY APPRECIATE THE EFFORTS OF AIRPORTS, SUCH AS JOHN WAYNE, THAT PLAN TO ACCOMMODATE FOR THE FUTURE OF AIR AND CARGO TRAVEL.

» LOU MANCINI

» At John Wayne Airport, we recognize that we have a responsibility not only to Orange County but to an even bigger community: our environment. We're dedicated to responsible environmental practices and are considered a leader in the industry for our proactive "green" policies. Our efforts have yielded important progress in regulating noise, controlling emissions and reducing waste.

We are just as conscientious and methodical with our environmental policies as we are with our financial endeavors. We recycle nearly half of the refuse from aircraft, terminal and supporting facilities, and we're working on a program that will make recycling even easier by allowing for sorting at the point of disposal. We keep water usage to a minimum, with waterless urinals, ultra low flow toilets, automatic faucets and flushing sensors installed in our Terminal restrooms. Fleet vehicles serving the Airport, like taxi cabs and airline ground service equipment operate on clean burning compressed natural gas (CNG) or other cleaner burning fuel alternatives. Our use of LED lighting on the airfield provides reliable lighting while reducing maintenance and energy costs. To promote pollution prevention/water quality, we use Best Management Practices to reduce the potential for pollutants in storm water discharge. With partners like Boeing, JWA has established a reputation for being one of the most noise sensitive airports in the world.

New technologies and practices emerge almost on a daily basis. We'll continue to evaluate the more promising new developments to make sure they are cost-effective and feasible and fit in with our long terms goals for conservation and for our business.



| DR. ANIL PURI |
Dean of Mihaylo College of Business and Economics, California State University, Fullerton

| ECONOMIC STABILITY |

» Like any prudent business enterprise, we analyze both our particular market and the larger economy, but we can't predict what will happen in the next couple of years. Still, we are optimistic. By making strategic decisions, capitalizing on opportunities as they arise, and maintaining a solid position in the market, we're poised for a strong year in an exceptionally challenging environment. While some airports are scaling down or putting their improvement projects on hold, we are moving ahead with ours, thanks to a creative yet conservative approach to cost management and financing. We are literally in a buyers market: because construction and contracting companies are competitively pricing their services to win new bids, we are able to negotiate favorable rates for our projects.

Our diverse carrier base also provides a significant advantage, both immediately and in the longer term. Rather than housing one dominant airline, JWA accommodates a big enough, and varied enough, assortment so that our success doesn't depend upon a single company. We are hopeful that we'll welcome at least one new air carrier, perhaps as soon as 2009 – quite a feat in the current market. We know that our existing and hoped-for carriers will be a tremendous asset in serving Orange County, as well as passengers around the country. Their service here bodes well for our financial picture, and our continuing status as the airport of choice for many in Southern California. As Orange County continues to distinguish itself as a business center, marquee destination, and one of the country's most desirable places to live, we'll continue to provide passengers with the high levels of service and convenience that one would expect from a world-class airport.

> "WHILE THE U.S. CAPITAL MARKETS AND FINANCIAL SYSTEM CHANGED DRAMATICALLY IN 2008, WE EXPECT ORANGE COUNTY'S ECONOMY TO FARE RELATIVELY BETTER THAN MOST IN BOTH THE SHORT- AND LONG-TERM. THE DIVERSITY AND DEPTH OF THE LOCAL ECONOMY WILL HELP JOHN WAYNE AIRPORT CONTINUE IN ITS ROLE AS A HEALTHY AND VITAL COMPONENT OF SOUTHERN CALIFORNIA'S ROBUST TRANSPORTATION INFRASTRUCTURE."
>
> » DR. ANIL PURI

| JOHN M. W. MOORLACH |
Board Chair, Orange County Supervisor, Second District

| FISCAL INTEGRITY |

> JOHN WAYNE AIRPORT'S FINANCIAL STRENGTH AND REPUTATION FOR FISCAL INTEGRITY ARE SIGNIFICANT ASSETS TO BOTH ORANGE COUNTY RESIDENTS AND THE REGION'S ECONOMY. THE AIRPORT IS A KEY ELEMENT IN THE BOARD OF SUPERVISOR'S MISSION TO KEEP THIS COUNTY MOVING AND PROSPEROUS.
>
> » JOHN M. W. MOORLACH

» For many years, Orange County was synonymous with words like "master planned" and "conservative." The concepts are at the core of how and why our community has prospered. Orange County was built on strategic progress and smart development.

It's appropriate that the same can be said about John Wayne Airport, and more importantly, about its management philosophy and economic principles.

We are committed to fiscally prudent, sound economic management. To serve the county and all of our passengers at the very high level of service and efficiency we're known for, it is imperative to maintain a positive cash flow and good debt ratings, and to make smart decisions that build on our financial strength. For example, in 2008, our debt service coverage exceeded 290%. We kept a strong liquidity position, with over 832 days cash on hand in 2007 and 990 days cash on hand in 2008. We also maintain a relatively low debt level per enplaned passenger. JWA is demonstrably successful as a business enterprise. We enjoy high bond ratings from each of the three major credit rating institutions: the Fitch rating is AA-, the Standard & Poor's rating is A+ and the Moody's rating is Aa3 which places JWA in the top 17 airports in the country, regardless of size.

This financial strategy doesn't just boost our bottom line: it enhances our business as a whole, and creates an advantage for the entire county. We've established and maintained JWA as a preferred travel hub of a major metropolitan market. Our passenger approval ratings are consistently positive and, as a result, we have a strong and loyal customer base.

Five of our air carriers hold a market share of 10% or more. A diverse carrier base helps shield us from market adjustments and enable the airlines to price their offerings more profitably. The prospect of adding one or more new carriers will only strengthen our position as an airport of choice for one of the most lucrative markets in the United States.

The Airport figures prominently in the county's continued economic growth: besides connecting people and business, the Airport itself is a source of jobs and revenue for the county. By remaining committed to our own particular financial principles as well as our vision of meeting the county's changing needs, we're ensuring that the brightest days are yet ahead.

| ORANGE COUNTY BOARD OF SUPERVISORS | »
John M. W. Moorlach, *Chair, Second District*
Patricia C. Bates, *Vice-Chair, Fifth District*
Janet Nguyen, *First District*
Bill Campbell, *Third District*
Chris Norby, *Fourth District*

| ORANGE COUNTY AIRPORT COMMISSION | »
Bruce B. Junor, *Chair, Third District*
Chris Welsh, *Vice-Chair, Second District*
Cheri Pham, *First District*
Stephen W. Bristol, *Fourth District*
Stephen Blythe, *Fifth District*

| AIRPORT DIRECTOR | »
Alan L. Murphy

| ASSISTANT AIRPORT DIRECTOR | »
Loan Leblow

JOHN WAYNE AIRPORT
» Eddie Martin Administration Building
3160 Airway Avenue
Costa Mesa, CA 92626
www.ocair.com
949.252.5171

| 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, 2008 and 2007

| INDEPENDENT AUDITOR'S REPORT |

Financial Statements:
- Statements of Net Assets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

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**

PLEASE FIND FINANCIAL REPORT ON PROVIDED DISC

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

For the Years Ended June 30, 2008 and 2007

| JOHN WAYNE AIRPORT |

(An enterprise fund of the County of Orange, California)

| TABLE OF CONTENTS |

» Independent Auditor's Report 01

» Financial Statements:

Statements of Net Assets 03

Statements of Revenues, Expenses and Changes in Net Assets 05

Statements of Cash Flows 06

Notes to Financial Statements 09

» 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** 33

BOARD OF SUPERVISORS
COUNTY OF ORANGE, CALIFORNIA

We have audited the accompanying basic financial statements of the 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, 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 audit. The basic financial statements of the Airport as of June 30, 2007, were audited by other auditors whose report dated December 6, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 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. 45 – **Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions**, as of July 1, 2007.

In accordance with **Government Auditing Standards**, we have also issued our report dated December 5, 2008 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.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2008

JOHN WAYNE AIRPORT

STATEMENTS OF NET ASSETS

JUNE 30, 2008 AND 2007

(to the nearest thousand)

	2008	2007
ASSETS		
Current assets:		
Cash	$14,019	$8,959
Pooled cash and investments with Treasurer	111,920	101,108
Specific investments with Treasurer	45,446	33,623
Imprest cash	14	14
Accounts receivable	4,492	4,045
Interest receivable	628	1,120
Due from County of Orange	1,492	49
Due from other governmental agencies	2,451	2,931
Prepaid expenses	1,507	2,119
Current restricted assets:		
Restricted cash and investments with trustee	16,092	12,765
Pooled cash and investments held for others	892	3,373
Pooled cash and investments with Treasurer	19,538	7,594
Passenger Facility Charges (PFC) receivable	2,278	3,278
Deposits in lieu of cash	39,286	31,494
TOTAL CURRENT ASSETS	260,055	212,472
Noncurrent restricted assets:		
Investments with trustee	17,962	18,502
Capital assets:		
Land	15,678	15,678
Buildings	337,805	352,254
Equipment	10,544	9,961
Infrastructure - runways, taxiways and aprons	128,340	124,621
Construction in progress	71,298	25,386
Less accumulated depreciation	(279,257)	(264,559)
Total capital assets	284,408	263,341
Other noncurrent assets:		
Investments with Treasurer	12,043	21,496
Long-term debt issuance costs	464	554
TOTAL NONCURRENT ASSETS	314,877	303,893
TOTAL ASSETS	$574,932	$516,365

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

STATEMENTS OF NET ASSETS (CONTINUED)

JUNE 30, 2008 AND 2007

(to the nearest thousand)

	2008	2007
LIABILITIES		
Current liabilities:		
Accounts payable	$14,021	$5,976
Salaries payable	442	353
Interest payable	2,462	–
Deferred revenue	3,095	4,438
Due to County of Orange	1,661	1,920
Compensated employee absences	956	865
Current liabilities payable from restricted assets:		
Bonds payable, net of deferred amounts on refundings and premiums	12,648	12,029
Deposits from others	40,178	34,867
Total current liabilities	75,463	60,448
Noncurrent liabilities:		
Compensated employee absences	664	862
Bonds payable, net of deferred amounts on refundings and premiums	77,248	89,896
Total noncurrent liabilities	77,912	90,758
TOTAL LIABILITIES	153,375	151,206
NET ASSETS		
Invested in capital assets, net of related debt	194,976	161,969
Restricted for debt service	31,592	31,267
Restricted for PFC	19,853	9,872
Restricted for capital projects - replacements and renewals	1,000	1,000
Unrestricted	174,136	161,051
TOTAL NET ASSETS	$421,557	$365,159

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

(to the nearest thousand)

	2008	2007
OPERATING REVENUES		
Terminal space rental	$18,654	$17,025
Auto parking	36,130	37,709
Concessions	24,821	23,960
Landing fees	11,448	11,105
Revenue from use of property	11,181	12,272
Charges for services	3,200	3,151
Aircraft tiedown fees	1,629	1,526
Total operating revenues	107,063	106,748
OPERATING EXPENSES		
Professional and specialized services	30,233	29,988
Salaries and employee benefits	15,451	14,592
Other services and supplies	17,491	18,497
Depreciation	18,589	19,306
Total operating expenses	81,764	82,383
Operating income	25,299	24,365
NONOPERATING REVENUES (EXPENSES)		
Interest income	8,630	9,319
Interest expense	(5,749)	(6,649)
Bankruptcy settlement proceeds	665	384
Other revenues (net)	2,501	1,300
PFC revenue	19,078	20,999
Total nonoperating revenues (expenses)	25,125	25,353
INCOME BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	50,424	49,718
Capital grant contributions	12,809	2,781
Special Item (Note 13)	(6,835)	–
CHANGES IN NET ASSETS	56,398	52,499
TOTAL NET ASSETS BEGINNING OF YEAR	365,159	312,660
TOTAL NET ASSETS END OF YEAR	$421,557	$365,159

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

(to the nearest thousand)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$101,828	$105,947
Payments to suppliers for goods and services	(46,802)	(48,517)
Payments to employees for services	(15,469)	(14,436)
Internal activity - receipts from other funds	(1,702)	539
Other receipts	2,782	1,119
Net cash provided by operating activities	40,637	44,652
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental revenues	464	668
Net cash provided by noncapital financing activities	464	668
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(38,758)	(9,825)
Principal payments on long-term debt	(12,765)	(12,120)
Interest paid on long-term debt	(2,462)	(5,637)
Proceeds from capital grant contributions	14,174	1,478
Proceeds from sale of capital assets	3	–
Receipts from PFC	20,079	17,721
Net cash used in capital and related financing activities	(19,729)	(8,383)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments, net	9,452	(5,263)
Interest received on investments	9,122	9,199
Net cash provided by investing activities	18,574	3,936
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,946	40,873
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	167,975	127,102
CASH AND CASH EQUIVALENTS - END OF YEAR	$207,921	$167,975

See accompanying notes to financial statements.

JOHN WAYNE AIRPORT

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

(to the nearest thousand)

	2008	2007
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$25,299	$24,365
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	18,589	19,306
Cash received from other revenues	2,782	1,119
(INCREASES) DECREASES IN ASSETS:		
Accounts receivable	(447)	61
Due from County of Orange	(1,443)	435
Due from other governmental agencies	–	25
Prepaid expenses	612	(69)
Deposits in lieu of cash	(7,792)	(3,377)
INCREASES (DECREASES) IN LIABILITIES:		
Accounts payable	310	36
Salaries payable	89	50
Deferred revenue	(2,306)	112
Due to County of Orange	(259)	105
Compensated employee absences payable	(107)	107
Deposits from others	5,310	2,377
Net cash provided by operating activities	$40,637	$44,652
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS		
Cash	$14,019	$8,959
Pooled cash and investments	111,920	101,108
Pooled cash and investments held for others	892	3,373
Pooled cash and investments with Treasurer	19,538	7,594
Imprest cash	14	14
Investments with Treasurer	57,489	55,119
Investments with trustee	34,054	31,267
Total	237,926	207,434
Less: Investments with original maturities of three months or more	(30,005)	(39,459)
TOTAL CASH AND CASH EQUIVALENTS	$207,921	$167,975

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

(to the nearest thousand)

	2008	2007
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Acquisition of capital assets with accounts payable	$10,244	$2,509
Change in fair value of investments not considered cash or cash equivalents	57	141
Write-off of discontinued construction projects	–	515
Accrued capital grant contribution receivable	2,376	2,776
Capital grant contribution deferred revenue liability	963	–
Accrued PFC receivable	2,278	–
Useful life adjustment of the Parking Structure B1 capital asset (Note 13)	(6,835)	–

See accompanying notes to financial statements.

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 (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, which 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, an agreement (Settlement Agreement) was reached between the County of Orange, 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 Settlement Agreement (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.

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 has initiated the design and construction of facilities to accommodate the increased capacity. The Airport Improvement Program includes construction of a new multi-level 250,000+ square foot terminal building ("Terminal C") with new security checkpoints, baggage screening capability and concessions. New permanent commuter facilities for the north and south ends of the new terminal are also planned. Construction on a new South Remain-Over-Night commercial aircraft parking area is well underway. Finally, a new parking structure is planned which will replace the existing B1 Parking Structure. The new terminal and the replacement parking structure are slated for completion in 2011.

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 (PFCs) 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 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 year ended June 30, 2008, $20,079 in PFC revenue was collected and $9,548 was expended on FAA approved projects.

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

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, which provides that revenues are recorded when earned and expenses are recorded when incurred. The preparation of financial statements in conformity with generally accepted accounting principles 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 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.

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

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 three months 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.

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 $624,562. 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 funds based on estimated future amounts to be paid on known claims and incurred but not reported claims, including loss adjustment expenses.

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

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, 2008, the restricted net assets amount was $52,445 of which $19,853 was restricted by enabling legislation.

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

POLICY REGARDING USE OF RESTRICTED VS. UNRESTRICTED RESOURCES

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

RECLASSIFICATIONS

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

NOTE 2 – CASH AND INVESTMENTS

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

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Total Airport cash and investments at fair value as of June 30, 2008 and June 30, 2007 were as follows:

Cash and Pooled Cash and Investments:	2008	2007
Cash on hand	$14,033	$8,973
Pooled cash and investments	132,350	112,075
Total Cash and Pooled Cash and Investments	146,383	121,048
Investments:		
With Treasurer	57,489	55,119
With Trustee	34,054	31,267
Total Investments	91,543	86,386
Total Cash and Investments	$237,926	$207,434

CASH

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

INVESTMENTS WITH TREASURER

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

The investment balance was $57,489 and $55,119 at June 30, 2008 and June 30, 2007 respectively, of which $45,446 and $33,623, respectively, are considered cash equivalents with original maturities of three months 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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

POOLED CASH AND INVESTMENTS HELD FOR OTHERS

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

Restricted deposits from the Agency of $61 and $2,606 were invested in the Pool and are included in restricted pooled cash and investments held for others as of June 30, 2008 and 2007, respectively.

INVESTMENTS

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

	Fair Value	Weighted Average Maturity (Years)
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	$57,489	0.08
With Trustee:		
Guaranteed Investment Contracts	$8,326	2.78
Cash	103	–
Money Market Mutual Funds	25,625	–
Total investments with Trustee	$34,054	0.68

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2007, the Airport had the following investments:

	Fair Value	Weighted Average Maturity (Years)
With Treasurer:		
U.S. Government Agencies	$13,878	0.11
Commercial Paper	22,880	0.11
Negotiable Certificates of Deposit	8,000	0.25
Medium Term Notes	2,000	0.70
Money Market Mutual Funds	8,361	0.01
Total investments with Treasurer	$55,119	0.15
With Trustee:		
Guaranteed Investment Contracts	$17,395	1.37
Cash	175	–
Money Market Mutual Funds	13,697	–
Total investments with Trustee	$31,267	1.37

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, 2008, and 2007, the WAM for the Pool approximated 204 and 236 days, respectively, and for Investments with Treasurer approximated 31 and 51 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.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

CREDIT RISK

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

CONCENTRATION OF CREDIT RISK

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

At June 30, 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):

	S&P	Moody's	Fitch	% of Total
Pool Investments:				
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				100.00%

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments With Treasurer:	S&P	Moody's	Fitch	% of Total
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				100.00%

Investments With Trustee:				
Guaranteed Investment Contracts	NR	NR	NR	24.45%
Cash				0.30%
Money Market Mutual Funds	AAA	Aaa	AAA	75.25%
Total investments with Trustee				100.00%

At June 30, 2007, 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 Farm Credit Bank	AAA	Aaa	AAA	0.94%
Federal Home Loan Bank Discount Notes	AAA	Aaa	NR	0.43%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	10.78%
Federal Home Loan Bank Bonds	AAA	Aaa	AAA	7.39%
Freddie Mac Bonds	AAA	Aaa	AAA	9.10%
Commercial Paper	A-1	P-1	F-1	21.15%
Negotiable Certificates of Deposit	A-1	P-1	F-1	17.09%

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

	S&P	Moody's	Fitch	% of Total
Medium-Term Corporate Notes				
Corporate Notes	A	A	A	4.20%
Corporate Notes	AAA	Aaa	AAA	1.75%
Corporate Notes	AAA	Aaa	NR	12.15%
Corporate Notes	AA	Aa	AA	1.25%
Corporate Notes	AA	Aa	AA	1.57%
Municipal Debt	SP-1	MIG-1	NR	4.17%
Repurchase Agreements	NR	NR	NR	7.11%
Money Market Mutual Funds	AAA	Aaa	AAA	0.92%
Total Pool				100.00%

Investments With Treasurer:	S&P	Moody's	Fitch	% of Total
U.S. Government Agencies				
Federal Farm Credit Bank	AAA	Aaa	AAA	1.80%
Freddie Mac Discount Notes	AAA	Aaa	AAA	12.42%
Federal National Mortgage Association Bonds	AAA	Aaa	AAA	10.96%
Commercial Paper	A-1	P-1	F-1	41.51%
Negotiable Certificates of Deposit				
Certificates of Deposit/Yankee CD	AA	Aa	AA	10.88%
Certificates of Deposit	A	A1	A	3.63%
Medium-Term Notes	AAA	Aaa	NR	3.63%
Money Market Mutual Funds	AAA	Aaa	AAA	15.17%
Total investments with Treasurer				100.00%

Investments With Trustee:				
Guaranteed Investment Contracts	NR	NR	NR	55.63%
Cash				0.56%
Money Market Mutual Funds	AAA	Aaa	AAA	43.81%
Total investments with Trustee				100.00%

NOTE 3 – DEFINED BENEFIT PENSION PLAN

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

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

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

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

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

Funding Policy: In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employee contributions and investment income, will fully provide for member benefits by the time they retire. For fiscal years 2007-08 and 2006-07, the employer's contribution rate as a percentage of covered payroll for General members was 22.56% and 22.23%, 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.

NOTE 3 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

The Airport's total payroll was $11,330 and $10,675 and the payroll for employees covered by OCERS was $11,309 and $10,625 for the years ended June 30, 2008 and 2007, 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:

For Year Ending June 30	Annual Required Contribution	Percentage Contributed
2006	$1,321	100%
2007	2,034	100%
2008	2,188	100%

For additional details on the defined benefit pension plan, actuarial assumptions, funded status of the plan and required supplemental information refer to the County's Comprehensive Annual Financial Report (CAFR). The CAFR is available by accessing the Auditor-Controller's website at 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 Second Amended 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 is required to contribute 3.5% of its payroll. The Airport's required contribution was $385 for the year ended June 30, 2008.

NOTE 4 – POSTEMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)

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.

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 through the year 2012 using the effective interest method. The outstanding carrying principal amount and interest for 1997 Bonds as of June 30, 2008 was $54,766 and $7,370, respectively.

NOTE 5 – LONG TERM OBLIGATIONS (CONTINUED)

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, 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, 2008 was $40,804 and $11,482, 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 1997 and 2003 Bonds are payable through July 2012 and July 2018, respectively. 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 2007-08, principal and interest paid and total net revenues were $17,688 and $54,930, respectively.

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
Airport Revenue Refunding					
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)
Airport Revenue Refunding					
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	$101,925	$1,161	$(13,190)	$89,896	$12,648

NOTE 5 – LONG TERM OBLIGATIONS (CONTINUED)

Revenue bonds outstanding and related activity for the year ended June 30, 2007, were as follows:

	Balance at July 1, 2006	Additions	Deductions	Balance at June 30, 2007	Due in 1 year
Airport Revenue Refunding Bonds Series 1997	$74,600	$ –	$(9,565)	$65,035	$10,135
Bond Premium	(85)	–	(60)	(145)	(11)
Deferred Amount on Refunding	(749)	220	–	(529)	(39)
Airport Revenue Refunding Bonds Series 2003	43,975		(2,555)	41,420	2,630
Bond Premium	2,913		(463)	2,450	436
Deferred Amount on Refunding	(7,498)	1,192	–	(6,306)	(1,122)
Total	$113,156	$1,412	$(12,643)	$101,925	$12,029

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

	1997 Revenue Bonds		2003 Revenue Bonds		
Year Ending June 30,	Principal	Interest	Principal	Interest	Total
2009	$10,745	$2,714	$2,735	$1,853	$18,047
2010	11,325	2,120	2,865	1,713	18,023
2011	11,930	1,488	3,015	1,566	17,999
2012	12,580	814	3,165	1,411	17,970
2013	8,320	234	3,325	1,249	13,128
2014-2018	--	--	19,245	3,579	22,824
2019	--	--	4,440	111	4,551
Total	$54,900	$7,370	$38,790	$11,482	$112,542

NOTE 5 – LONG TERM OBLIGATIONS (CONTINUED)

Other long-term liability activity for the years ended June 30, 2008 and 2007, respectively, were as follows:

	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

	Balance at July 1, 2006	Additions	Deductions	Balance at June 30, 2007	Due in 1 year
Other Long-Term Liabilities:					
Compensated Employee Absences	$1,620	$1,376	$(1,269)	$1,727	$865

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, 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	$36,921	$(17,862)	$19,059

NOTE 6 – PROPERTY LEASED TO OTHERS (CONTINUED)

Future minimum rental revenues to be received under these noncancelable operating leases as of June 30, 2008 are as follows:

Year Ending June 30,	Future Minimum Rent
2009	$28,917
2010	22,412
2011	17,472
2012	1,391
2013	1,011
2014-2018	1,525
Total	$72,728

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 $26,818 and $27,219 for the years ended June 30, 2008 and 2007, respectively.

NOTE 7 – COMMITMENTS UNDER OPERATING LEASES

Lease expense was $415 and $251 for the years ended June 30, 2008 and 2007, respectively. As of June 30, 2008, there was $74 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 $21,114 and $20,343 for the years ended June 30, 2008 and 2007, respectively.

NOTE 9 – CONTINGENCIES AND COMMITMENTS

COMMITMENTS

At June 30, 2008, the Airport was committed under contracts for the following construction projects:

Terminal Building Gate Expansion	$15,076
New South Remain-Over-Night (RON)	9,757
Deconstruction of Parking Structure B1	6,658
Design of the New Parking Structure C	2,397
Other	2,345
Total	$36,233

NOTE 10 – CHANGES IN CAPITAL ASSETS

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:	41,064	45,926	(14)	–	86,976
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	486,836	627	(10,774)	–	476,689
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	(264,559)	(18,589)	3,936	(45)	(279,257)
Total capital assets depreciated, net	222,277	(17,962)	(6,838)	(45)	197,432
Total capital assets, net	$263,341	$27,964	$(6,852)	$(45)	$284,408

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

NOTE 10 – CHANGES IN CAPITAL ASSETS (CONTINUED)

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance at June 30, 2006	Additions	Deductions	Balance at June 30, 2007
Capital assets, not depreciated:				
Land	$15,678	$ –	$ –	$15,678
Construction in progress	16,364	11,992	(2,970)	25,386
Total capital assets, not depreciated:	32,042	11,992	(2,970)	41,064
Capital assets, depreciated:				
Buildings	349,787	2,546	(79)	352,254
Infrastructure	124,621	–	–	124,621
Equipment	10,341	364	(744)	9,961
Total capital assets, depreciated	484,749	2,910	(823)	486,836
Less accumulated depreciation:				
Buildings	(158,571)	(18,558)	5,529	(171,600)
Infrastructure	(80,293)	(5,529)	–	(85,822)
Equipment	(6,993)	(748)	604	(7,137)
Total accumulated depreciation	(245,857)	(24,835)	6,133	(264,559)
Total capital assets depreciated, net	238,892	(21,925)	5,310	222,277
Total capital assets, net	$270,934	$(9,933)	$2,340	$263,341

Note: The above addition to accumulated depreciation for infrastructure of $5,529 represents a reclassification of accumulated depreciation between buildings and infrastructure. Total depreciation expense for the year ended June 30, 2007 was $19,306.

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.

NOTE 11 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONTINUED)

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

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

The composition of interfund balances as of June 30, 2007, was as follows:

Receivable Fund	Payable Fund	Amount
Airport	General Fund	$49
Total Interfund Receivables		$49
General Fund	Airport	$202
Internal Service Funds	Airport	13
Road Fund	Airport	68
Other Government Funds	Airport	1,637
Total Interfund Payables		$ 1,920

There were no interfund transfers for the years ended June 30, 2008 and June 30, 2007.

NOTE 12 – NEW ACCOUNTING PRONOUNCEMENTS

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

In June 2004, GASB issued Statement No. 45, **Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions**. This statement addresses how state and local governments should account for and report costs and obligations related to postemployment healthcare and other nonpension benefits and is effective for fiscal periods beginning after December 15, 2006. Annual other postemployment benefits (OPEB) cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed,

NOTE 12 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The Airport implemented the new reporting requirements in FY 2007-08. For additional information, refer to Note 4 - Postemployment Health Care Benefits.

In September 2006, GASB issued Statement No. 48, **Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues**. This statement establishes criteria that governments will use to determine whether certain transactions should be regarded as a sale and reported as revenue or regarded as collateralized borrowing and recorded as a liability. Examples of such transactions include the sale of delinquent taxes, certain mortgages, student loans, or future revenue such as those from tobacco settlement agreements. The statement also includes provisions that stipulate that governments should not revalue assets that are transferred between financial reporting entity components. The requirements of this statement are effective for the financial statements for periods beginning after December 15, 2006, which the Airport implemented this statement in FY 2007-08.

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 will be effective for 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 is required to implement this statement in FY 2008-09.

In May 2007, GASB issued Statement No. 50, **Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27**. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2007. The Airport implemented this statement in FY 2007-08.

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.

NOTE 12 – NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In June 2008, GASB issued Statement No. 53, **Accounting and Financial Reporting for Derivative Instruments**. This statement addresses how state and local governments should recognize, measure, and disclose information regarding derivative instruments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Examples of derivative instruments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The 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.

NOTE 13 – SPECIAL ITEM

Parking Structure B1 was opened in 1990 as part of the new Thomas F. Riley Terminal and was assigned a 45 year useful life. During FY 2004-05, an Airport Improvement Program was approved by the Board of Supervisors that included construction of a new terminal (Terminal C) and a new parking structure. This Program required the demolition of Parking Structure B1 to make room for the new terminal building.

The County Auditor-Controller evaluated the timing of events related to the demolition of Parking Structure B1 and determined the parking structure's useful life should be re-evaluated (reduced substantially) as of the year-ended June 30, 2008. As a result of the re-evaluation, its remaining life was reduced from 27 years to two and one-half months.

As of the year-ended June 30, 2008, 18 years of the parking structure's useful life had been depreciated and the approximate net book value was $9,841. A portion of the parking structure will not be demolished and will remain in order to support an existing baggage handling screening (BHS) facility. This remaining portion was determined to be valued at $1,207 and is reported in the Statement of Net Assets.

Parking Structure B1 as of June 30, 2008	
Net book value before useful life adjustment	$9,841
Less: Net book value of remaining portion (BHS)	(1,207)
Net book value of portion to be demolished before useful life adjustment	8,634
Less: Net book value of portion to be demolished after useful life adjustment	(1,799)
Amount to be reported as a special item	$6,835

This is considered a special item as it is unusual in nature and infrequent in occurrence to demolish a fully operational parking structure in order to make way for a new building at the Airport.

NOTE 13 – SPECIAL ITEM (CONTINUED)

Accordingly, the adjustment to the parking structure's useful life is being reported as a special item in the Statement of Revenues, Expenses and Changes in Net Assets.

Refer also to the Note 14 – Subsequent Event(s) for additional discussion.

NOTE 14 – SUBSEQUENT EVENT(S)

Subsequent to the close of the fiscal year, the Airport began to remove a parking structure to make way for a new terminal building. Although the parking structure was a revenue generating facility, the Airport opened a temporary parking lot to the public prior to the actual closing of the parking structure, to compensate spaces lost from the parking structure's impending closure. This activity does not affect other Airport parking facilities which remain fully operational.

As a result of the closure, the parking structure's useful life has been adjusted as of the year-ended June 30, 2008. See Note 13 – Special Item for additional discussion.

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 the 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, 2008, and have issued our report thereon dated December 5, 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.

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** (CONTINUED)

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, Airport management, and grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 5, 2008