Office of Legislative
Auditor General

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June 24, 2009

**FINAL REPORT TRANSMITTAL LETTER**

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Financial Assessment – Attestation Review Report for the Wayne County Airport Authority (The Authority) audited financial statements for the fiscal year ended September 30, 2008. Our report is dated May 4, 2009, DAP No. 2009-57-909. The draft report was accepted by the Audit Committee at its meeting held on Tuesday, June 9, 2009, and formally accepted by the Wayne County Commission on June 18, 2009.

We are pleased to inform you that officials from the Wayne County Airport Authority provided their full cooperation. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's Final reports can be found on our website at http://www.waynecounty.com/mygovt/comm/AuditReport.aspx.

Willie Mayo, CPA, CICA
Auditor General

**REPORT DISTRIBUTION**

**Wayne County Airport Authority**
Lester W. Robinson, Chief Executive Officer
Thomas J. Naughton, Senior Vice President - Chief Financial Officer
Istakur Rahman, Vice President-Internal Audit
Terrence Teifer, Vice President-Treasury Operations
Margaret Basrai, Controller

**Wayne County Airport Authority Board**
James U. Settles, Jr. Chairman

**Department of Management & Budget**
Carla E. Sledge, Chief Financial Officer
Terry Hasse, Director of Grants and Contract Administration

**Wayne County Executive**

# RESOLUTION

No. 2009-333

By Commissioner Woronchak and Co-sponsored by Commissioner Varga

RESOLVED, by the Wayne County Commission this 18th day of June, 2009 that approval be, and is hereby, granted approving the Office of the Legislative Auditor General's Financial Assessment-Attestation Review Report on the Wayne County Airport Authority's audited financial statements for the fiscal year ended September 30, 2008; the report is dated May 4, 2009.

(2009-57-909)

# Wayne County Office of Legislative Auditor General (OAG)
# Financial Assessment – Attestation Review Report

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| **Report Entity Name & Type** | Wayne County Airport Authority Comprehensive Annual Financial Report for the fiscal year ended September 30, 2008. |
| **DAF No.** | 2009-31-009 |
| **Referring Department/Agency** | Wayne County Airport Authority (the Authority) |
| **Entity Purpose and Type** | The Wayne County Airport Authority was created in accordance with State of Michigan Public Act 90 (PA 90), or the Public Airport Authority Act, of 2002. The Authority has operational jurisdiction over the Detroit Metropolitan Wayne County Airport (Metro Airport), Willow Run Airport, and the Metro Airport Westin Hotel. Although the county owns all of the Authority's assets, the Authority holds the exclusive right, responsibility, and authority to occupy, operate, control, and use these facilities.<br><br>The Authority is a discretely presented component unit of the county for financial reporting purposes. Discretely presented component units are entities that are legally separate from the county but for which the county is financially accountable. |
| **Organizational or Governance Structure** | The Authority is governed by a seven member board. In accordance with PA 90, the Wayne County CEO appoints four members to the board, the governor of the state appoints two members, and the legislative body of Wayne County appoints one member. The Airport Authority board appoints the chief executive officer of the Authority.<br><br>The Authority board appoints a three-member audit committee to oversee its financial reporting. The audit committee meets quarterly to review the financial condition, operations, performance, and management of the Authority. In addition, the CEO of the authority appoints an internal auditor to evaluate the internal control environment over the Authority's financial activities. |
| **Entity's Funding Sources** | The Authority receives no county General Fund support. Funding for the Authority's operations is primarily predicated on airport use and lease agreements (Agreements) with airlines (Airlines) operating at the Metro Airport. The Agreements set the terms of the business relationship between the Authority and the Airlines and impose charges and fees, such as aircraft landing fees, terminal building and rental fees, and facility use fees, etc., related to the Airlines' use of the airport.<br><br>Other funding sources received to finance the Authority's operations include non-airline revenues such as parking and concessions fees, and car rental and hotel revenues. |

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| **Entity's Funding Sources (cont'd)** | Additionally, the Authority participates in the Airport Improvement Program (AIP), a federal grant program for the operation and improvement of the nation's airports. The AIP provides funding for airport development, airport planning, and noise compatibility programs through the Airport and Airway Trust Fund, and through entitlement and discretionary grants. |
| **Summary of Intergovernmental Agreements with the County** | Currently none exist, though PA 90 of 2002 primarily outlines the Authority's relationship with the county. According to county management, the county and the Authority are working to finalize an agreement. |
| **Type of Report** | Annual audited financial statements with independent auditors' report issued by Plante and Moran, PLLC. This report is also referred to as the Comprehensive Annual Financial Report (CAFR). |
| **Report Period** | October 1, 2007 through September 30, 2008 |
| **Report Purpose** | The report is required under federal regulations and state law. The report's purpose is to render an opinion on the financial statements of the Authority for the year ended September 30, 2008. |
| **Type of Audit Report Opinion** | Unqualified (clean) opinion. |
| **Report's Impact on the County's Comprehensive Annual Financial Report** | Annually, the financial statements of the Authority are incorporated into the county's CAFR as a discretely presented component unit. A component unit is a legally separate entity for which the county (primary government) is financially accountable. |
| **OAG ASSESSMENT** | Our review of the Authority's audited financial statements and other supplementary information for the period ended September 30, 2008 was conducted in adherence with attestation standards established by the Comptroller General of the United States (Government Auditing Standards) and the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination or audit, the objective of which is the expression of an opinion on the audited financial statements. Accordingly, we do not express such an opinion.<br><br>Based on the work performed, nothing came to our attention that caused us to believe the audited financial statements of the Authority and other supplementary information are not presented in conformity with generally accepted accounting principles.<br><br>We concluded that the audited financial statements and reported supplementary information appear complete and thorough. Below, we have summarized our assessment for consideration by the commission: |

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| **OAG ASSESSMENT (cont'd)** | • The Airport Authority's operations are summarized in three funds:<br><br>1. The Detroit Metropolitan Airport Fund: This fund is used to account for the operations and maintenance of the Detroit Metropolitan Wayne County Airport.<br>2. The Willow Run Airport Fund: This fund is used to account for the operations and maintenance of the Willow Run Airport.<br>3. The Westin Airport Hotel Fund: This fund is used to account for the activity associated with the funding, furnishing, and operations of an airport hotel in the McNamara Terminal at the Detroit Metropolitan Wayne County Airport.<br><br>• Pursuant to Public Act 90, the Authority is liable for all of the bond obligations with respect to Metro and Willow Run Airports and the Metro Airport Westin Hotel, with the exception of the county's pledge of limited tax full faith and credit associated with the $110.9 million Airport Hotel Revenue Bonds issued by the county, series 2001A and 2001B. This pledge by the county is additional security for payment of the principal, premium, if any, and interest on the bonds.<br>o As of September 30, 2008, the Authority had approximately $2.34 billion in outstanding bonded and other debt.<br><br>• The Authority had combined net assets of $638 million at fiscal year end, which represents a decrease of approximately 3 percent, or $19 million, compared to the prior year's net assets of $657 million. The $19 million net change was a result of: the net operating loss (expenditures exceeding revenues) of $69 million and nonoperating expenses of $4.4 million, offset by capital contributions of $54.8 million (e.g., gain on discharge of bonds and earned grant revenues).<br>o The Detroit Metropolitan Airport Fund incurred a decrease in net assets of $12.9 million at fiscal year end. The Airport operates under a residual methodology which requires the Signatory Airlines to fund the net cost of operating the entire airport. This obligation includes operating expenses and all debt service requirements of the Airport. The residual methodology creates a funding mechanism that is not congruent with financial statement reporting standards. Under the methodology, the Signatory Airlines are required to fund any deficit of the Airport; therefore, this deficit is not equivalent to an "Operating Loss" or any other designation reported on the financial statements. Since the Airport utilizes the residual methodology, all annual operating costs and debt service requirements of the Airport have been funded.<br>o The Willow Run Airport incurred a decrease in net assets of $2.9 million. Also, Willow Run had an unrestricted fund deficit of $5.3 million. Management has established an internal committee to explore various options and to develop a corrective action plan. The state has not required a deficit elimination plan.<br>o The Westin Hotel incurred a decrease in net assets of $3 million. In addition, the Westin Hotel fund had an operating deficit of nearly $29.5 million, or an 8 percent increase over the prior year's deficit. The deficit elimination plan that was submitted for fiscal year 2006 |

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| **OAG ASSESSMENT (cont'd)** | was not required to be resubmitted for the fiscal year 2008 deficit. According to the deficit elimination plan, the Westin Hotel will continue to show an increasing deficit until FY 2011, at which time enough operating income is projected to cover the non-cash transactions of depreciation and amortization of bond issuance costs.<br><br>• During FY 2008 the Authority adopted the provisions of GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB) and created an Act 149 Health Care Trust Fund. At September 30, 2008, the Fund had net assets of $3.1 million. The OPEB obligation at year end was $482,000.<br><br>• During fiscal year 2008, the Authority undertook refunding actions in order to mitigate the negative financial impact resulting from the economic credit crisis. As part of the refunding, the Authority initiated a swap agreement to change variable interest rates to fixed rates which resulted in fixed rates of 3.4825% for Series 2008C-1 Bonds, 3.997% for Series 2008C-2 Bonds, and 3.4265% for Series 2008D Bonds. (Refer to the audited financial statements footnote 7 on page 39 for a more detailed explanation of these transactions.)<br><br>• Northwest Airlines (Northwest) is the Authority's major customer and accounted for approximately 26 percent of the Authority's total operating revenue for the year ended September 30, 2008. During 2008, Northwest and Delta Airlines completed a merger of their two companies. This consolidation is expected to have a positive effect as the new entity will continue to utilize Detroit as a hub and remain the primary carrier. In the event that Northwest discontinues or reduces its operations, there are no assurances that another airline would replace it as the Detroit Metropolitan Wayne County Airport's major customer.<br><br>**Subsequent Events**<br><br>• In October 2008, the Authority issued $74.8 million of Airport Revenue Refunding Bonds, Series 2008E and 2008F. These bonds were issued to refund, on a current basis at the earliest practicable date, the Series 1996A and 1996B Bonds.<br><br>• The proceeds of the Series 2007B bonds were placed in a trust account for payment on future debt service obligations for the Series 1998B bonds. The 1998B bonds were subsequently paid in full in December 2008. (Refer to the audited financial statements footnote 7 on page 38 for a more detailed explanation of this transaction.)<br><br>**Noteworthy Accomplishments**<br><br>• On September 17, 2008 the Authority opened the North Terminal, which replaces the Smith Terminal and the Berry International Terminal, both of which are intended to be demolished as part of the project, and represents the completion of a major portion of the North Terminal Redevelopment Project. |

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| **STATUS OF PRIOR YEAR'S RECOMMENDATIONS** | There were no prior year recommendations. |
| **VIEWS OF RESPONSIBLE OFFICIALS** | We shared our report with Airport Authority officials and they indicated they agreed with our assessment. |
| **OAG RECOMMENDATION** | It is our recommendation that the Wayne County Airport Authority audited financial statements for fiscal year ended September 30, 2008 be approved and forwarded to the Wayne County Commission for acceptance and approval. |

This report is intended solely for the information and use of the Wayne County Airport Authority and the Wayne County Commission and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Willie Mayo, CPA, CICA
Auditor General