MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

FINANCIAL AUDIT
OF THE

MACKINAC BRIDGE AUTHORITY

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2008 through September 30, 2009

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

591-0210-10

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

Audit report information can be accessed at:
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Michigan

Office of the Auditor General

REPORT SUMMARY

Financial Audit

Mackinac Bridge Authority

(A Discretely Presented Component Unit of the State of Michigan)

October 1, 2008 through September 30, 2009

Report Number:
591-0210-10

Released:
December 2009

A financial audit determines if the financial statements are fairly presented; considers internal control over financial reporting; and determines compliance with requirements material to the financial statements. This financial audit of the Mackinac Bridge Authority was conducted as part of the constitutional responsibility of the Office of the Auditor General.

Financial Statements:

Auditor's Report Issued

We issued an unqualified opinion on the Mackinac Bridge Authority's financial statements.

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Internal Control Over Financial Reporting

We did not report any findings related to internal control over financial reporting.

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Noncompliance and Other Matters Material to the Financial Statements

We did not identify any instances of noncompliance or other matters applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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Background:

The Mackinac Bridge Authority was created as a corporate instrumentality in 1950 under provisions of Act No. 21 of the Public Acts of Michigan. Public Act No. 214 of 1952, as amended, empowered the Authority to construct and operate a bridge between the Lower Peninsula and the Upper Peninsula of Michigan. Financing for the operation and maintenance of the bridge is provided by fares and earnings on investments.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

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Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

December 23, 2009

Mr. Robert J. Sweeney, Executive Secretary
Mackinac Bridge Authority
St. Ignace, Michigan

Dear Mr. Sweeney:

This is our report on the financial audit of the Mackinac Bridge Authority, a discretely presented component unit of the State of Michigan, for the period October 1, 2008 through September 30, 2009.

This report contains our report summary, our independent auditor's report on the financial statements, the Authority management's discussion and analysis, and the Authority's basic financial statements and required supplementary information. This report also contains our independent auditor's report on internal control over financial reporting and on compliance and other matters and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on the Financial Statements

Mr. Robert J. Sweeney, Executive Secretary
Mackinac Bridge Authority
St. Ignace, Michigan

Dear Mr. Sweeney:

We have audited the accompanying financial statements of the Mackinac Bridge Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2009, as identified in the table of contents. These financial statements are the responsibility of the Mackinac Bridge Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the fiscal year ended September 30, 2008 were audited by other auditors whose report dated November 5, 2008 expressed an unqualified opinion on those statements.

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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

As described in Note 1, the financial statements present only the Mackinac Bridge Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its other component units as of September 30, 2009 and September 30, 2008 and the changes in financial position and cash flows thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2009 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Mackinac Bridge Authority as of September 30, 2009 and the changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009 on our consideration of the Mackinac Bridge Authority'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 management's discussion and analysis on pages 11 through 17 and the modified approach for reporting infrastructure assets on pages 35 and 36 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

AUDITOR GENERAL

December 14, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Mackinac Bridge Authority's annual financial report is management's discussion and analysis of the Authority's financial performance. Please read it in conjunction with the Authority's basic financial statements and related footnotes, which follow this section.

Financial Highlights

- The Authority's total assets increased by $4,472,782, or 3.1 percent, over the course of this year's operations. Total assets increased by $5,476,607 from fiscal year 2006-07 to fiscal year 2007-08.

- Total liabilities decreased by $389,174, or 9.5 percent, during the current year. Total liabilities increased by $391,138 from fiscal year 2006-07 to fiscal year 2007-08.

- Total net assets increased by $4,861,956, or 3.4 percent, consisting of a $181,398 decrease in invested capital assets, the establishment of a reserved for self-insurance of $231,233 in restricted assets, and a $4,812,121 increase in unrestricted assets designated for future repair, maintenance, and preservation of the Mackinac Bridge.

- Traffic crossing the Mackinac Bridge throughout the current fiscal year totaled 3,849,914 vehicles, which was 91,296, or 2.4 percent more vehicles than the previous fiscal year. Traffic decreased 318,819, or 7.8 percent, from fiscal year 2006-07 to fiscal year 2007-08.

- Toll revenue increased by $711,405, or 4.9 percent, due to the increased traffic and a toll increase effective March 1, 2008. Toll revenue increased by $707,917, or 5.1 percent, from fiscal year 2006-07 to fiscal year 2007-08 due to the March 1, 2008 toll increase partially offset by a reduction in traffic.

- Investment income increased by $937,594, or 89.5 percent, due to a market value increase partially offset by a reduction in interest rates. Investment income decreased from fiscal year 2006-07 to fiscal year 2007-08 by $542,866, or 34.1 percent, due to market value and interest rate reductions.

- Total operating expenses increased by $1,818,691, or 17.2 percent, due primarily to the timing of bridge painting and other infrastructure preservation contracts.

- Expenses to operate and manage the bridge decreased in the current year by $234,519, or 3.8 percent, due to reductions in labor costs.

- Expenses to preserve and repair the Mackinac Bridge and related infrastructure totaled $6,363,078 in the current year, which was $2,053,210 more than the previous year due primarily to the timing of bridge painting and other infrastructure preservation contracts.

Overview of the Financial Statements

The Authority's financial statements include a statement of net assets and a statement of revenues, expenses, and changes in net assets. These statements report the Authority's net assets as of September 30, 2009 and how they have changed since September 30, 2008. Net assets, the difference between the Authority's assets and liabilities, is one way to measure the Authority's current investment in the Mackinac Bridge and the capital assets needed to operate and preserve it, as well as its financial resources available for planned future preservation costs. Over time, increases or decreases in the Authority's net assets are an indicator of its financial ability to continue with the necessary preservation of the Mackinac Bridge.

Also included is a statement of cash flows, which shows how cash was received and used throughout the year to conduct the Authority's operations.

Financial Analysis

Net Assets - The Authority's net assets increased by $4,861,956, or 3.4 percent, from fiscal year 2007-08 to fiscal year 2008-09, going from $141,494,786 at the beginning of the fiscal year to $146,356,742 at fiscal year-end. This increase was the result of a 3.1 percent increase in total assets and a 9.5 percent decrease in total liabilities. The Authority's net assets increased by $5,085,469, or 3.7 percent, from fiscal year 2006-07 to fiscal year 2007-08. This increase was the result of a 3.9 percent increase in total assets and a 10.6 percent increase in total liabilities from fiscal year 2006-07 to fiscal year 2007-08 (see schedule of net assets).

Schedule of Net Assets

	September 30		
	2009	2008	2007
Assets			
Current	$ 43,170,734	$ 38,516,554	$ 33,050,760
Capital	106,882,798	107,064,196	107,053,383
Total assets	$150,053,532	$145,580,750	$140,104,143
Liabilities			
Current	$ 3,292,348	$ 3,831,531	$ 3,439,869
Non-current	404,442	254,433	254,957
Total liabilities	$ 3,696,790	$ 4,085,964	$ 3,694,826
Net Assets			
Invested in capital assets	$106,882,798	$107,064,196	$107,053,383
Reserved for self-insurance	231,233		
Unrestricted	39,242,711	34,430,590	29,355,934
Total net assets	$146,356,742	$141,494,786	$136,409,317

Total assets increased by $4,472,782, composed of a 12.1 percent increase in current assets and a 0.2 percent decrease in capital assets. Current assets consist primarily of cash and cash equivalents and investments. Current assets increased throughout the year by $4,654,180 due to revenues exceeding expenditures, resulting in a 13.3 percent, or $4,978,031, increase in investments. Cash decreased by $187,093 or 20.3 percent due to the timing in payment of current liabilities. Capital assets consist of land and bridge, road, and plaza area infrastructure and depreciable buildings, vehicles, and equipment. Capital assets decreased by $181,398 due to asset depreciation exceeding capital investment.

Total assets increased by $5,476,607 from fiscal year 2006-07 to fiscal year 2007-08, composed of a 16.5 percent increase in current assets and a less than 0.1 percent increase in capital assets. Current assets consist primarily of cash and cash equivalents and investments. Current assets increased from fiscal year 2006-07 to fiscal year 2007-08 by $5,465,794, due to revenues exceeding expenditures. Capital assets increased by $10,813 from fiscal year 2006-07 to fiscal year 2007-08, due to capital investment exceeding asset depreciation.

Total liabilities decreased by $389,174, or 9.5 percent, from fiscal year 2007-08 to fiscal year 2008-09 due to the timing in payment of payroll invoices to the State of Michigan and the payment of vendor invoices for repairs and maintenance during the fiscal year. Total liabilities increased by $391,138 from fiscal year 2006-07 to fiscal year 2007-08.

Change in Net Assets - Net assets change throughout the year due to variances in revenues and expenses and changes in capital assets. This year's net assets increased by $4,861,956 and last year's net assets increased by $5,085,469. For the year ended September 30, 2007, net assets increased by $6,559,566 (see schedule of changes in net assets).

Schedule of Changes in Net Assets

	Fiscal Year Ended September 30		
	2009	2008	2007
Operating Revenues - Tolls and fees	$ 15,493,684	$14,836,100	$13,987,446
Operating Expenses			
Operations	$ 6,003,832	$ 6,238,351	$ 7,610,926
Infrastructure preservation	6,363,078	4,309,868	1,157,408
Total operating expenses	$ 12,366,910	$10,548,219	$ 8,768,334
Nonoperating Revenue (Expense)			
Investment income	$ 1,985,182	$ 1,047,588	$ 1,590,454
Payments on advance to the State of Michigan	$ (250,000)	$ (250,000)	$ (250,000)
Change in Net Assets	$ 4,861,956	$ 5,085,469	$ 6,559,566

This year's operating revenues of $15,493,684, consisting of vehicle tolls, miscellaneous fees, and lease income, increased by 4.4 percent over the previous year. This increase was due to a 2.4 percent increase in vehicles crossing the bridge and an increase in toll rates effective March 1, 2008. Toll revenue went from $14,530,956 for fiscal year 2007-08 up to $15,242,361 for fiscal year 2008-09. Expenses to operate, manage, and preserve the bridge and associated infrastructure during fiscal year 2008-09 were 17.2 percent more than the previous year. Bridge operations and management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, decreased by 3.8 percent due to reductions in labor costs. This year's infrastructure preservation expenses totaling $6,363,078 were $2,053,210 more than the $4,309,868 expensed during fiscal year 2007-08. The reasons for this difference in preservation expenses were increased painting activity in fiscal year 2008-09 and the timing of other preservation projects identified in the Authority's 20-year strategic plan.

Prior year's operating revenues of $14,836,100, consisting of vehicle tolls, miscellaneous fees, and lease income, increased by 6.1 percent from fiscal year 2006-07. This increase was due to an increase in toll rates effective March 1, 2008, partially offset by a 7.8 percent decrease in vehicles crossing the bridge. Expenses to operate, manage, and preserve the bridge and associated infrastructure in fiscal year 2007-08 were 20.3 percent more than for fiscal year 2006-07. Bridge operations and management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, decreased by 18.0 percent from fiscal year 2006-07 to fiscal year 2007-08 primarily due to recording wages and other labor-related costs for preservation projects and programs as preservation expenses, which had previously been recorded as maintenance expenses.

Investment income for fiscal year 2008-09 totaled $1,985,182, showing a 5.0 percent rate of return on invested assets. This was $937,594, or 89.5 percent more than the investment income of $1,047,588 reported for fiscal year 2007-08, which showed a 3.0 percent rate of return. Interest earnings were $1,139,706 during fiscal year 2008-09 on an average investment of $39.8 million, while $1,434,585 was earned during fiscal year 2007-08 on an average investment of $34.5 million. This represents interest earnings at the rate of 2.9 percent and 4.2 percent, respectively. Fiscal year 2008-09 interest earnings were increased by $845,476 due to increases in investment market values, while fiscal year 2007-08 earnings were decreased by $386,997 due to decreases in market values.

Investment income for fiscal year 2007-08 totaled $1,047,588. This was $542,866, or 34.1 percent less than the investment income of $1,590,454 reported for fiscal year 2006-07. Interest earnings were $1,434,585 during fiscal year 2007-08 on an average investment of $34.5 million, while $1,374,758 was earned during fiscal year 2006-07 on an average investment of $28.7 million. This represents interest earnings at the rate of 4.2 percent and 4.8 percent, respectively. Fiscal year 2007-08 interest earnings were decreased by $386,997 due to decreases in investment market values, while fiscal year 2006-07 earnings were increased by $215,696 due to increases in market values.

Capital Asset and Debt Administration

Capital assets, consisting of the bridge and related infrastructure, land, buildings, and capital equipment, net of depreciation, decreased by $181,398 and increased by $10,813 at September 30, 2009 and September 30, 2008, respectively. This year's decrease was the result of a $140,812 reduction in net capital equipment through sale and disposal of excess and obsolete equipment, and a $40,586 increase in accumulated depreciation. The prior fiscal year's increase was due to an $86,027 addition to net capital equipment with the purchase of capital equipment costing $355,328 and the disposal of two obsolete toll coin machines purchased in 2001. The prior fiscal year's increase in capital assets was reduced by a $75,214 decrease in accumulated depreciation.

The total value of vacation and sick leave balances due employees as of September 30, 2009 was $563,537. Outstanding long-term debt totaling $404,442 is the portion of compensated absences not expected to be paid within the following twelve months. The remaining $159,095 is the amount budgeted to be paid during fiscal year 2009-10. Total compensated absences increased by $59,104 from fiscal year 2007-08 due to the inclusion of a 31.62 percent addition in fiscal year 2008-09 totaling $110,887 for pension on leave payoffs, other than sick leave, which was not included in the fiscal year 2007-08 calculation. This addition of pension payments on leave balances was partially offset by reductions in paid leave balances due to retirement payouts.

Modified Approach for Infrastructure

The Authority manages its bridge network using its bridge management and inspection program and accounts for it using the modified approach. The Mackinac Bridge is inspected annually by an independent engineering firm. It is the policy of the Authority to keep the structure at a condition rating of fair or better. The condition rating descriptions are the ones used in the latest Michigan Department of Transportation - Michigan Bridge Inspection System.

Actual preservation costs included the expenditures needed to complete all priority preservation projects to keep the Mackinac Bridge at or above the established condition level.

Economic Factors

As of September 30, 2009, the Authority had no pending or threatening litigation that would have a material effect on its financial statements.

During fiscal year 2008-09, the Authority undertook its regular and prudent assessment of the various areas of insurance coverage. The Authority continued to carry appropriate insurance against tort liability and physical damage to the Authority's other real and personal property through August 5, 2009, after which the Authority began its self-insurance program. The Authority entered into an agreement with the Michigan Department of Transportation to provide for the self-insurance against tort liability and physical damage to the Authority's assets other than licensed vehicles and physical damage to the bridge itself. The Authority maintains insurance for licensed vehicles. The Authority does not insure the bridge structure itself for physical damage.

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BASIC FINANCIAL STATEMENTS

MACKINAC BRIDGE AUTHORITY

Statement of Net Assets

	September 30	
	2009	2008
Assets		
Current Assets		
Cash (Note 4)	$ 734,379	$ 921,472
Investments (Note 4)	42,338,551	37,360,520
Other assets	97,804	234,562
Total current assets	$ 43,170,734	$ 38,516,554
Capital Assets (Note 5)		
Capital assets not being depreciated	$ 102,846,644	$ 102,846,644
Other capital assets - Net of depreciation	4,036,154	4,217,552
Total capital assets	$ 106,882,798	$ 107,064,196
Total assets	$ 150,053,532	$ 145,580,750
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 529,299	$ 955,538
Due to State of Michigan (Note 6)	1,668,364	1,586,977
Prepaid tolls	871,605	973,683
Deferred revenue	63,985	65,333
Compensated absences (Note 7)	159,095	250,000
Total current liabilities	$ 3,292,348	$ 3,831,531
Noncurrent Liabilities		
Compensated absences (Note 7)	404,442	254,433
Total liabilities	$ 3,696,790	$ 4,085,964
Net Assets		
Invested in capital assets	$ 106,882,798	$ 107,064,196
Reserve for self-insurance (Note 8)	231,233	
Unrestricted (Note 1)	39,242,711	34,430,590
Total net assets	$ 146,356,742	$ 141,494,786
Total liabilities and net assets	$ 150,053,532	$ 145,580,750

The accompanying notes are an integral part of the financial statements.

MACKINAC BRIDGE AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Assets

	Fiscal Year Ended September 30	
	2009	2008
Operating Revenues		
Tolls and fees	$ 15,493,684	$ 14,836,100
Operating Expenses		
Bridge operations	$ 1,957,244	$ 2,062,375
Maintenance	2,341,649	2,379,198
Administration	503,261	491,659
Finance	688,543	748,440
General operations	513,135	556,679
Preservation costs	6,363,078	4,309,868
Total operating expenses	$ 12,366,910	$ 10,548,219
Operating Income	$ 3,126,774	$ 4,287,881
Nonoperating Revenue		
Investment income	1,985,182	1,047,588
Payments on Advance to the State of Michigan (Note 3)	(250,000)	(250,000)
Increase in Net Assets	$ 4,861,956	$ 5,085,469
Net Assets - Beginning of fiscal year	141,494,786	136,409,317
Net Assets - End of fiscal year	$ 146,356,742	$ 141,494,786

The accompanying notes are an integral part of the financial statements.

MACKINAC BRIDGE AUTHORITY

Statement of Cash Flows

	Fiscal Year Ended September 30	
	2009	2008
Cash Flows from Operating Activities		
Tolls and fees	$ 15,396,765	$ 14,881,069
Payments to employees	(5,922,857)	(6,024,643)
Payments to suppliers	(1,478,194)	(1,288,376)
Net cash provided by operating activities	$ 7,995,714	$ 7,568,050
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	$ (136,980)	$ (355,328)
Payments of preservation costs	(4,812,126)	(2,579,634)
Payments on advance to the State of Michigan	(250,000)	(250,000)
Proceeds from sale of capital assets	9,148	
Net cash used in capital and related financing activities	$ (5,189,958)	$ (3,184,962)
Cash Flows from Investing Activities		
Interest on investments	$ 1,225,853	$ 1,346,336
Purchase of investments - Net	(4,218,702)	(6,318,517)
Net cash used in investing activities	$ (2,992,849)	$ (4,972,181)
Net Decrease in Cash	$ (187,093)	$ (589,093)
Cash - Beginning of fiscal year	921,472	1,510,565
Cash - End of fiscal year	$ 734,379	$ 921,472
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 3,126,774	$ 4,287,881
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	314,365	315,662
Preservation costs reported as cash flow from capital activities	4,812,126	2,579,634
Loss (gain) on sale of capital asset	(5,135)	28,854
Changes in assets and liabilities:		
Other assets	136,758	(35,119)
Accounts payable	(426,239)	174,538
Due to State of Michigan	81,387	201,009
Prepaid tolls	(102,078)	39,115
Deferred revenue	(1,348)	(23,000)
Compensated absences	59,104	(524)
Net cash provided by operating activities	$ 7,995,714	$ 7,568,050

During fiscal years 2008-09 and 2007-08, there were no noncash investing, capital, and financing activities.

The accompanying notes are an integral part of the financial statements.

Note 1 Summary of Significant Accounting Policies

Reporting Entity - The Mackinac Bridge Authority, a discretely presented component unit of the State of Michigan, was created as a corporate instrumentality in 1950 under provisions of Act No. 21 of the Public Acts of Michigan. Public Act No. 214 of 1952, as amended, empowered the Authority to construct and operate a bridge between the Lower Peninsula and the Upper Peninsula of Michigan. Financing for the operation and maintenance of the bridge is provided by fares and earnings on investments.

Basis of Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements present only the Mackinac Bridge Authority. Accordingly, they do not purport to, and do not, present fairly the financial position, the changes in financial position, and the cash flows of the State of Michigan or its other component units, in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting - The Authority follows the accounting rules promulgated by GASB. Additionally, the Authority follows all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB Statements. The periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and accountability; therefore, the Enterprise Fund model is followed and the full accrual basis of accounting is used.

Investments - Investments are recorded at fair value, based on quoted market prices.

Capital Assets - Capital assets with a unit cost of over $5,000 are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. The Authority's infrastructure asset (the Mackinac Bridge and related assets) is included in the financial statements at historical cost, and the

Authority has elected to use the modified approach. Under the modified approach, all capital expenditures except additions and improvements are reported as an expense in the current period in lieu of depreciating the asset. All other capital assets (excluding infrastructure) are depreciated using the straight-line method over the estimated useful lives of the assets.

Compensated Absences - Compensated absence costs are accrued when earned by employees.

Revenues/Expenses - Operating revenues and expenses generally result from providing services and maintaining the Mackinac Bridge. All other revenues and expenses are reported as nonoperating.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Unrestricted Net Assets - The Authority, through board action, has designated the use of a portion of unrestricted net assets as follows:

	September 30	
	2009	2008
Designated for repairs, maintenance, and preservation of infrastructure	$38,742,711	$33,930,590
Undesignated	500,000	500,000
Total unrestricted net assets	$39,242,711	$34,430,590

Note 2 Operating Expenditures Reimbursement

Act No. 141 of the Public Acts of Michigan's 1953 Regular Session provided for the annual reimbursement by the Michigan Department of Transportation for operating expenditures, not to exceed $417,000 in any one State fiscal year.

Such annual reimbursements were made through December 1985, at which time all Bridge revenue bond principal and interest were paid.

Public Act No. 141 further provides that, even though all Bridge revenue bonds have been paid, the Authority shall continue to charge fares until the aggregate amount of all reimbursements (advances) have been repaid to the State Trunkline Fund. A total of $12,306,172 has been received as advances under this Act and, to date, no repayments have been made.

The Authority has not recorded a liability for these advances because the reimbursements are contingent upon future net revenue and the repayment commitment is long-term and budgetary in nature.

Note 3 **Annual Debt Service Advance and Revision of Fares**

Under Public Act No. 5 of 1967, Extra Session, the State Legislature authorized an appropriation of $3,500,000 to be disbursed to the Mackinac Bridge Authority in January 1969 and a similar amount during each January thereafter through January 1986 to be used in payment of principal, interest, and incidental costs of bonds issued by the Authority, while still outstanding. It was the expressed intent of the Legislature that the Authority reduce fares for crossing the bridge as nearly as possible to $1.50 per passenger car (from the rate of $3.75 employed in 1968) and make proportional reductions for all other classes of vehicles. Effective January 1, 1969, the Authority approved such reduction in fares for all classes of vehicles. Effective May 1, 2003, the Authority increased fares to assist with expenses. Additionally, effective March 1, 2008, the Authority approved an additional increase of fares to further help assist with expenses and economic conditions. Public Act No. 5 further provides that even though all Bridge revenue bonds have been paid, the Authority shall continue to charge fares until the aggregate amount of advances received has been repaid to the Michigan Transportation Fund. A total of $63,000,000 has been received as advances under this Act. During fiscal years 2008-09 and 2007-08, the Authority paid $250,000 to the State of Michigan toward this advance. The total of these advances repaid as of September 30, 2009 is $11,500,000. The repayment amounts have been determined by the Authority's finance committee, which considers the Mackinac Bridge's annual needs for maintenance and operations as well as planned future extraordinary repairs and improvements.

The Authority has not recorded a liability for these advances because the reimbursements are contingent upon future net revenue and the repayment commitment is long-term and budgetary in nature. When repayments are made, they are reported as payments on advance to the State of Michigan.

Note 4 **Deposits and Investments**

Cash and investments held by the Authority at September 30, 2009 and September 30, 2008 were as follows:

2009	Cash	Investments	Total
Deposits	$639,620	$	$ 639,620
Investments		42,338,551	42,338,551
Cash on hand	94,759		94,759
Total	$734,379	$42,338,551	$43,072,930

2008	Cash	Investments	Total
Deposits	$859,697	$	$ 859,697
Investments		37,360,520	37,360,520
Cash on hand	61,775		61,775
Total	$921,472	$37,360,520	$38,281,992

The Authority has designated one bank for the deposit of its funds. The investment policy in accordance with State statutes has authorized investment in bonds and securities of the United States government, bank accounts, and certificates of deposit. The Authority's deposits and investment policies are in accordance with State statutes.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At September 30, 2009 and September 30, 2008, the Authority had $663,049 and $872,082, respectively, of bank deposits (checking and savings accounts). Of these amounts, $250,000 was covered by federal depository insurance coverage and $413,049 was covered by collateral held in the pledging bank's trust department in the Authority's name at September 30, 2009 and $100,000 was covered by federal depository insurance coverage and $772,082 was covered by collateral held in the pledging bank's trust department in the Authority's name at September 30, 2008. The Authority believes that, due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270-day maturity. Maturities of investments held by the Authority at September 30, 2009 and September 30, 2008 were as follows:

Investment	Fair Value	Less than One Year	1 - 5 Years	6 - 10 Years	11 - 15 Years
2009					
U.S. government agency	$32,427,633	$1,210,434	$11,208,564	$14,228,801	$5,779,834
U.S. Treasury bills	$ 3,999,780	$3,999,780			
2008					
U.S. government agency	$32,350,459	$ 296,135	$15,880,883	$14,139,442	$2,033,999

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has an investment policy that would limit its investment choices regarding credit risk. Credit quality ratings of debt securities held by the Authority at September 30, 2009 and September 30, 2008 were as follows:

Investment	Fair Value	Rating	Rating Organization
2009			
Mutual fund	$ 5,911,138	Not rated	N/A
U.S. government agency	$32,427,633	AAA	Standard & Poor's
U.S. Treasury bills	$ 3,999,780	AAA	Standard & Poor's
2008			
Mutual fund	$ 5,010,061	Not rated	N/A
U.S. government agency	$32,054,324	AAA	Standard & Poor's

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment with a single issuer. The Authority has a policy limiting the dollar value of investments with a single user. The policy requires the Authority to limit investments in securities to any single issuer to 5 percent of total investments with the following exceptions:

U.S. Treasury	100% of total investments
Each Federal Agency	50% of total investments
Each Repurchased Agreement Counterparty	25% of total investments
Each Money Market Mutual Fund	50% of total investments

The Authority had investments in the following companies that exceeded 5 percent of the Authority's total investments at September 30, 2009:

Name of Issuer	Amount	Percentage of Investment
Federal Farm Credit Banks	$14,297,189	33.8%
Federal Home Loan Banks	$ 9,694,108	22.9%
Freddie Mac	$ 3,025,145	7.2%

Note 5 <u>Capital Assets</u>

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

	October 1, 2008	Additions	Disposals	September 30, 2009	Depreciable Life - Years
Capital assets not being depreciated:					
Land	$ 125,000	$	$	$ 125,000	
Infrastructure - Bridge	102,721,644			102,721,644	
Total capital assets not being depreciated	$102,846,644	$ 0	$ 0	$102,846,644	
Other capital assets:					
Buildings	$ 5,134,443	$	$	$ 5,134,443	39
Equipment and vehicles	3,306,208	136,980	(277,792)	3,165,396	3 - 7
Total other capital assets	$ 8,440,651	$ 136,980	$(277,792)	$ 8,299,839	
Less accumulated depreciation:					
Buildings	$ 1,588,093	$ 131,652	$	$ 1,719,745	
Equipment and vehicles	2,635,006	182,713	(273,779)	2,543,940	
Subtotal	$ 4,223,099	$ 314,365	$(273,779)	$ 4,263,685	
Net other capital assets	$ 4,217,552	$ (177,385)	$ (4,013)	$ 4,036,154	
Net capital assets	$107,064,196	$ (177,385)	$ (4,013)	$106,882,798	

Depreciation expense was charged to functions as follows for the fiscal year ended September 30, 2009:

Bridge Operations	$ 27,352
General Operations	131,652
Maintenance	86,353
Administration	2,524
Infrastructure Preservation	66,484
Total depreciation expense	$ 314,365

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

	October 1, 2007	Additions	Disposals	September 30, 2008	Depreciable Life - Years
Capital assets not being depreciated:					
Land	$ 125,000	$	$	$ 125,000	
Infrastructure - Bridge	102,721,644			102,721,644	
Total capital assets not being depreciated	$102,846,644	$ 0	$ 0	$102,846,644	
Other capital assets:					
Buildings	$ 5,134,443	$	$	$ 5,134,443	39
Equipment and vehicles	3,220,180	355,328	(269,300)	3,306,208	3 - 7
Total other capital assets	$ 8,354,623	$ 355,328	$(269,300)	$ 8,440,651	
Less accumulated depreciation:					
Buildings	$ 1,456,441	$ 131,652	$	$ 1,588,093	
Equipment and vehicles	2,691,443	184,010	(240,447)	2,635,006	
Subtotal	$ 4,147,884	$ 315,662	$(240,447)	$ 4,223,099	
Net other capital assets	$ 4,206,739	$ 39,666	$ (28,853)	$ 4,217,552	
Net capital assets	$107,053,383	$ 39,666	$ (28,853)	$107,064,196	

Depreciation expense was charged to functions as follows for the fiscal year ended September 30, 2008:

Bridge Operations	$ 47,325
General Operations	131,652
Maintenance	134,161
Administration	2,524
Total depreciation expense	$315,662

Note 6 Due to State of Michigan

The following is a summary of the amounts due to the State of Michigan for reimbursement of expenses made on behalf of the Authority:

	September 30	
	2009	2008
Michigan Department of Military and Veterans Affairs	$ 54,227	$ 68,232
Michigan Department of Environmental Quality	200	
Michigan Department of Energy, Labor & Economic Growth	38,212	
Michigan Department of Transportation	1,575,725	1,518,745
Total	$ 1,668,364	$1,586,977

Note 7 Long-Term Liabilities

Long-term liability activity for the fiscal years ended September 30, 2009 and September 30, 2008 was as follows:

2009	Balance October 1, 2008	Additions	Reductions	Balance September 30, 2009	Amounts Due Within One Year
Compensated absences	$504,433	$59,104	$ 0	$563,537	$159,095

2008	Balance October 1, 2007	Additions	Reductions	Balance September 30, 2008	Amounts Due Within One Year
Compensated absences	$504,957	$ 0	$524	$504,433	$250,000

Note 8 Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority had purchased commercial insurance for property loss (other than total loss of the bridge), torts, and errors and omissions claims. Effective September 1, 2002, the Authority was no longer insured for total property loss of the bridge. Section 254.301a of the *Michigan Compiled Laws* allows the Authority to enter into an agreement with the Michigan Department of Transportation to provide for the self-insurance of bridge assets and activities. Effective August 5, 2009, the Authority canceled its commercial insurance policies, with the exception of its commercial automobile policy, and entered into an agreement with the Michigan Department of Transportation to self-insure the Authority's assets (excluding property loss of the bridge) and activities. The State of Michigan provides coverage for the Authority for medical benefits. The Authority also self-insures for employee injuries (workers' compensation) claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Authority estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The estimated liability is included with accounts payable on the statement of net assets. Changes in the estimated liability for the past two fiscal years were as follows:

	2009	2008
Estimated Liability - Beginning of fiscal year	$ 75,057	$102,891
Estimated change of claims incurred	46,425	(12,445)
Claim payments	(3,446)	(15,389)
Estimated Liability - End of fiscal year	$ 118,036	$ 75,057

Note 9 **Pensions Plans and Postemployment Benefits**

Plan Description - The Authority participates in the State of Michigan's defined benefit and defined contribution plans that cover most State employees, as well as related component units, such as the Mackinac Bridge Authority. The defined benefit and defined contribution pension plans are part of the State Employees' Retirement System administered by the Department of Management and Budget, Office of Retirement Services. Participants in each plan are eligible for retirement, healthcare, disability, and death benefits upon meeting certain vesting requirements. The State Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report is available on the State's website at http://www.michigan.gov/ors. The financial report for the defined contribution plan may be obtained by writing to the Department of Management and

Budget, Office of Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909 or by calling (517) 322-5103.

Funding Policy - Plan members are not required to make contributions; the Authority is required to contribute at an actuarially determined rate for the defined benefit plan of 18.84 percent of payroll for the fiscal year ended September 30, 2009. For the fiscal year ended September 30, 2008, the actuarially determined rate ranged from 6.63 percent to 18.72 percent of payroll. The defined benefit contributions to the plan were equal to the required contributions for each year. The Authority is required to contribute to the defined contribution plan 4.0 percent of payroll with an additional match of up to 3.0 percent for the fiscal years ended September 30, 2009 and September 30, 2008. The contribution requirements of plan members and the Authority are established and may be amended by the State Legislature. The State Legislature establishes the extent to which the employer and employees are required to make contributions and establishes the benefit provisions for the plan. The Authority's contributions to the plan, including postemployment benefits as described below, for the fiscal years ended September 30, 2009, September 30, 2008, and September 30, 2007, were $827,267, $786,677, and $727,328, respectively.

Postemployment Benefits - In addition, the Authority participates in the State of Michigan's postemployment benefits. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan and funded on a pay-as-you-go basis. The contributions paid to this plan for the fiscal year ended September 30, 2009 was 0 percent to 11.8 percent of payroll. For the fiscal year ended September 30, 2008, the contributions paid to this plan ranged from 0 percent to 11.4 percent of payroll. The State will pay 90 percent of health care benefits for employees hired on or before March 30, 1997, who participate in either the defined benefit plan or the defined contribution plan and meet certain vesting and other requirements. For employees who were hired after March 30, 1997, the State will pay up to 90 percent of healthcare benefits for employees who meet certain vesting and other requirements.

Note 10 **<u>Commitments</u>**

As of September 30, 2009, the Authority has outstanding commitments on contracts to complete bridge painting and maintenance of the bridge and consulting projects in the amount of approximately $9,481,622.

REQUIRED SUPPLEMENTARY INFORMATION

The condition of the Mackinac Bridge is determined by using inspection procedures in accordance with the latest American Association of State Highway Transportation Officials Manual for Condition Evaluation of Bridges (including amendments and interim specifications) and the Federal Highway Administration - Bridge Inspector's Training Manual. The Mackinac Bridge Authority manages its bridge using its bridge management and inspection program and accounts for it using the modified approach. The Mackinac Bridge is inspected annually.

It is the policy of the Mackinac Bridge Authority to keep the structure at an overall condition of fair or better. The condition rating descriptions are the ones used in the latest Michigan Department of Transportation - Michigan Bridge Inspection System.

Rating descriptions are as follows:

9	Excellent
8	Very Good
7	Good
6	Satisfactory
5	Fair
4	Poor
3	Serious
2	Critical
1	Imminent failure
0	Failure

The condition rating for 2009, 2008, 2007, 2006, and 2005 was good as determined by inspection procedures. The most recent condition assessment shows that the condition of the Mackinac Bridge is in accordance with the Mackinac Bridge Authority's policy.

Comparison of Needed-to-Actual Maintenance/Preservation

The amounts reported as needed are based on projects needing completion during the fiscal year, which include priority maintenance and/or preservation projects, as well as other nonpriority maintenance and/or preservation costs. The difference between the amounts needed and actually expensed during fiscal year 2008-09 is primarily due to the contractor's lack of planned progress with the painting of the north side span. This work will be completed during the 2010 construction season.

	Fiscal Years				
	2008-09	2007-08	2006-07	2005-06	2004-05
Needed	$15,283,302	$ 4,833,645	$ 1,390,200	$ 5,403,898	$11,127,600
Actual	$ 6,363,078	$ 4,309,868	$ 1,157,408	$ 5,235,262	$10,582,557

Actual infrastructure maintenance and preservation costs were adequate to perform the needed priority maintenance and/or preservation projects to keep the Mackinac Bridge at or above the established condition level.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Mr. Robert J. Sweeney, Executive Secretary
Mackinac Bridge Authority
St. Ignace, Michigan

Dear Mr. Sweeney:

We have audited the financial statements of the Mackinac Bridge Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2009, as identified in the table of contents, and have issued our report thereon dated December 14, 2009. 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.

<u>Internal Control Over Financial Reporting</u>
In planning and performing our audit, we considered the Mackinac Bridge Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity'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 in the preceding paragraph.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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 Governor, the Legislature, the Mackinac Bridge Authority Board, management, and others within the Michigan Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL

December 14, 2009

GLOSSARY

control deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements of an audited entity are presented fairly in all material respects in conformity with the disclosed basis of accounting.
GASB	Governmental Accounting Standards Board.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material misstatement	A misstatement in the financial statements that causes the statements to not present fairly the financial position or the changes in financial position or cash flows in conformity with the disclosed basis of accounting.
material weakness in internal control over financial reporting	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.
significant deficiency in internal control over financial reporting	A control deficiency, or combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected.

unqualified opinion

An auditor's opinion in which the auditor states that the financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting.

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STATE OF MICHIGAN

OFFICE of the AUDITOR GENERAL