Mackinac Bridge Authority

Financial Report
with Supplemental Information
September 30, 2014

Contents

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Independent Auditor's Report

To the Board Members and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Mackinac Bridge Authority
St. Ignace, Michigan

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Mackinac Bridge Authority (the "Authority"), a component unit of the State of Michigan, as of and for the years ended September 30, 2014 and 2013 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Mackinac Bridge Authority as of September 30, 2014 and 2013 and the changes in its financial position and its cash flow, thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Board Members and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Mackinac Bridge Authority
St. Ignace, Michigan

Required Supplemental Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2014 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, 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* in considering the Mackinac Bridge Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 1, 2014

Management's Discussion and Analysis
(Unaudited)

This section of the Mackinac Bridge Authority's (the "Authority") annual financial report is management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2014. 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 $2,643,939, or 1.5 percent, over the course of fiscal year 2013-2014 operations. Total assets increased by $963,468 from fiscal year 2011-2012 to fiscal year 2012-2013.
- Total liabilities decreased by $3,269,437, or 37.9 percent, during the current year. Total liabilities increased by $2,102,487 from fiscal year 2011-2012 to fiscal year 2012-2013.
- Total net position increased by $5,913,376, or 3.6 percent, consisting of a $263,429 increase in invested capital assets, a $168,767 increase in the reserve for self-insurance, and a $5,481,180 increase in unrestricted assets designated for future repair and maintenance of the Mackinac Bridge.
- Traffic crossing the Mackinac Bridge throughout the fiscal year totaled 3,661,554 vehicles, which was 27,981, or 0.8 percent, fewer vehicles than the previous fiscal year. Traffic decreased by 74,711, or 2.0 percent, from fiscal year 2011-2012 to fiscal year 2012-2013.
- Toll revenue decreased by $148,746 or 0.7 percent, due to a 0.8 percent decrease in traffic crossing the Mackinac Bridge over the fiscal year. Toll revenue increased by $234,726, or 1.1 percent, from fiscal year 2011-2012 to fiscal year 2012-2013 due to the January 1, 2012 toll increase affecting the first three months of fiscal year 2012-2013.
- Investment income increased by $2,409,133, due to a 2.5 percent increase in interest earnings and an 89.8 percent increase in market values. Investment income decreased from fiscal year 2011-2012 to fiscal year 2012-2013 by $3,939,831, or 145.5 percent, due to a 31.8 percent decrease in interest earnings and a 513.7 percent decrease in market values over that period.
- Total operating expenses decreased from fiscal year 2012-2013 to fiscal year 2013-2014 by $4,805,901, or 23.3 percent, due primarily to a reduction in the amount of required bridge painting and the timing of other infrastructure preservation contracts.
- Expenses to operate and manage the bridge decreased from fiscal year 2012-2013 to fiscal year 2013-2014 by $36,921, or 0.7 percent, due to reduced labor costs.
- Expenses to preserve and maintain the Mackinac Bridge and related infrastructure totaled $10,255,894 in the current fiscal year, which was $4,768,980 less than the previous year due primarily to the reduction in the amount of required bridge painting and the timing of other infrastructure preservation contracts.

Overview of the Financial Statements

The Authority's financial statements include a statement of net position and a statement of revenue, expenses, and changes in net position. These statements report the Authority's net position as of September 30, 2014 and 2013, and how they have changed since September 30, 2013 and 2012, respectively. Net position, the difference between the Authority's assets and liabilities, is a 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 position 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 Position - The Authority's net position increased by $5,913,376, or 3.6 percent, from fiscal year 2012-2013 to fiscal year 2013-2014, going from $162,724,711 at the beginning of the year to $168,638,087 at fiscal year end. This increase was the result of a 1.5 percent increase in total assets and a 37.9 percent decrease in total liabilities. The Authority's net position decreased by $1,139,019, or 0.7 percent, from fiscal year 2011-2012 to fiscal year 2012-2013, going from $163,863,730 at the beginning of the year to $162,724,711 at fiscal year end. This decrease was the result of a 0.6 percent increase in total assets and a 32.3 percent increase in total liabilities from fiscal year 2011-2012 to fiscal year 2012-2013 (see schedule of net position).

Schedule of Net Position

	Fiscal Year		
	2014	2013	2012
Assets			
Current	$ 6,010,726	$ 2,160,759	$ 7,971,497
Noncurrent:			
Long-term investments	60,435,807	61,905,264	55,572,430
Capital assets	107,539,388	107,275,959	106,834,587
Total assets	**$ 173,985,921**	**$ 171,341,982**	**$ 170,378,514**
Liabilities			
Current	$ 3,720,445	$ 6,882,637	$ 4,615,190
Noncurrent	1,627,389	1,734,634	1,899,594
Total liabilities	**$ 5,347,834**	**$ 8,617,271**	**$ 6,514,784**
Net Position			
Invested in capital assets	$ 107,539,388	$ 107,275,959	$ 106,834,587
Unrestricted	61,098,699	55,448,752	57,029,143
Total net position	**$ 168,638,087**	**$ 162,724,711**	**$ 163,863,730**

Total assets increased from fiscal year 2012-2013 to fiscal year 2013-2014 by $2,643,939, composed of a 178.2 percent increase in current assets, a 2.4 percent decrease in long-term investments, and a 0.2 percent increase in capital assets. Current assets consist primarily of cash and short-term investments. Current assets increased throughout the year by $3,849,967 primarily due to the investment of $5,236,968 in operating income. Long-term investments decreased by $1,469,457 due to an increase in maturing current investments and $1,445,212 of realized investment income. Long-term investments were reduced by $268,804 in unrealized investment losses. Unrealized investment losses improved over the fiscal year by $2,374,446 due to a strengthening of investment market values. Cash increased by $191,365, or 25.7 percent, due to the timing in payment of current liabilities. Capital assets consist of land; bridge, road and plaza area infrastructure; and depreciable buildings, vehicles and equipment. Capital assets increased by $263,429 due to capital investment exceeding asset depreciation.

Total assets increased from fiscal year 2011-2012 to fiscal year 2012-2013 by $963,468, composed of a 72.9 percent decrease in current assets, an 11.4 percent increase in long-term investments, and a 0.4 percent increase in capital assets. Current assets consist primarily of cash and short-term investments. Current assets decreased throughout the year by $5,810,738 primarily due to cash flows into long-term investments. Long-term investments increased by $6,332,834 due to maturing current investments being re-invested in long-term investments, the investment of $593,706 in operating income, and $1,410,525 of realized investment income. Long-term investments were reduced by $2,643,250 of unrealized investment losses due to reductions in investment market values occurring over the fiscal year. Cash decreased by $245,000, or 24.8 percent, due to changes in investments and the timing in payment of current liabilities. Capital assets consist of land; bridge, road and plaza area infrastructure; and depreciable buildings, vehicles, and equipment. Capital assets increased by $441,372 due to capital investment exceeding asset depreciation.

Total liabilities decreased by $3,269,437, or 37.9 percent from fiscal year 2012-2013 to fiscal year 2013-2014 due to the timing in payment of payroll invoices to the State of Michigan and the payment of vendor invoices for infrastructure repairs and maintenance during the fiscal year. Total liabilities increased by $2,102,487, or 32.3 percent from fiscal year 2011-2012 to fiscal year 2012-2013 due to the timing in payment of payroll invoices to the State of Michigan and the payment of vendor invoices for infrastructure repairs and maintenance during the fiscal year.

Change in Net Position - Net position changed throughout the year due to variances in revenue and expenses and changes in capital assets. Net position for fiscal year 2013-2014 increased by $5,913,376 while net position for fiscal year 2012-2013 decreased by $1,139,019. For the fiscal year ended September 30, 2012, net position increased by $4,765,353 (see schedule of changes in net position).

Schedule of Changes in Net Position

	Fiscal Year		
	2014	2013	2012
Operating Revenue - Tolls, fees, and leases	$ 21,045,084	$ 21,207,723	$ 20,893,366
Operating Expenses			
Operations	5,552,222	5,589,143	5,753,810
Infrastructure preservation	10,255,894	15,024,874	12,831,309
Total expenses	15,808,116	20,614,017	18,585,119
Nonoperating (Expense) Revenue			
Investment income	1,176,408	(1,232,725)	2,707,106
Payments on advance to the State of Michigan	(500,000)	(500,000)	(250,000)
Changes in Net Position	**$ 5,913,376**	**$ (1,139,019)**	**$ 4,765,353**

Operating revenue for fiscal year 2013-2014 of $21,045,084, consisting of vehicle tolls, miscellaneous fees, and lease income, decreased by 0.8 percent from the previous year. Toll revenue went from $20,692,608 for fiscal year 2012-2013 to $20,543,862 for fiscal year 2013-2014. Expenses to operate, manage, and preserve the bridge and associated infrastructure during fiscal year 2013-2014 went from $20,614,017 for fiscal year 2012-2013 to $15,808,116 for fiscal year 2013-2014 for a decrease of 23.3 percent. Bridge operations and management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, decreased by 0.7 percent for fiscal year 2013-2014 due to decreases in labor costs. Infrastructure preservation expenses for fiscal year 2013-2014, totaling $10,255,894, were $4,768,980 less than the $15,024,874 expensed during fiscal year 2012-2013. The reasons for this difference in fiscal year preservation expenses were a reduction in required painting activity in fiscal year 2013-2014 and the timing of other preservation projects identified in the Authority's 20-year business plan.

Operating revenue for fiscal year 2012-2013 of $21,207,723, consisting of vehicle tolls, miscellaneous fees, and lease income, increased by 1.5 percent from the previous year. Toll revenue went from $20,457,882 for fiscal year 2011-2012 to $20,692,608 for fiscal year 2012-2013. Expenses to operate, manage, and preserve the bridge and associated infrastructure during fiscal year 2012-2013 went from $18,585,119 for fiscal year 2011-2012 to $20,614,017 for fiscal year 2012-2013 for an increase of 10.9 percent. Bridge operations and management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, decreased by 2.9 percent for fiscal year 2012-2013 due to decreases in labor costs. Infrastructure preservation expenses for fiscal year 2012-2013, totaling $15,024,874, were $2,193,565 more than the $12,831,309 expensed during fiscal year 2011-2012. The reasons for this difference in fiscal year preservation expenses were increased painting activity in fiscal year 2012-2013 and the timing of other preservation projects identified in the Authority's 20-year business plan.

Net investment income for fiscal year 2013-2014 was $1,176,408, resulting in a 1.8 percent rate of return on invested assets. This was $2,409,133 more than the investment loss of $1,232,725 reported for fiscal year 2012-2013, which showed a negative 2.0 percent rate of return. Interest earnings were $1,445,212 during fiscal year 2013-2014 on an average investment of $64.4 million, whereas $1,410,525 was earned during fiscal year 2012-2013 on an average investment of $61.5 million. This represents interest earnings at the rate of 2.2 percent and 2.3 percent, respectively. Interest earnings were reduced by $268,804 in fiscal year 2013-2014 due to reductions in market values. Interest earnings were reduced by $2,643,250 in fiscal year 2012-2013 due to a reduction in market values.

Net investment income for fiscal year 2012-2013 showed a loss of $1,232,725, resulting in a negative 2.0 percent rate of return on invested assets. This was $3,939,831 less than the investment income of $2,707,106 reported for fiscal year 2011-2012, which showed a 4.5 percent rate of return. Interest earnings were $1,410,525 during fiscal year 2012-2013 on an average investment of $61.5 million, whereas $2,068,141 was earned during fiscal year 2011-2012 on an average investment of $57.2 million. This represents interest earnings at the rate of 2.3 percent and 3.6 percent, respectively. Interest earnings were reduced by $2,643,250 in fiscal year 2012-2013 due to a reduction in market values. Interest earnings were increased by $638,965 in fiscal year 2011-2012 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, increased by $263,429 and $441,372 at September 30, 2014 and September 30, 2013, respectively. The increase in fiscal year 2013-2014 was the result of a $228,210 addition to capital assets not being depreciated for the work in progress on the weight scales project, and the net addition to capital equipment and buildings through the purchase of $445,555 in new equipment and vehicles. These additions to depreciable capital assets were reduced by the sale of $103,623 in excess equipment and vehicles and a $306,712 net increase in accumulated depreciation. The increase in fiscal year 2012-2013 was the result of a $795,704 net addition to capital equipment and buildings through the purchase of $756,354 in new equipment and vehicles, and a $39,350 replacement of the maintenance building roofing. These additions to depreciable capital assets were reduced by the sale of $132,519 in excess equipment and vehicles and a $221,813 increase in accumulated depreciation.

As of September 30, 2014, prepaid tolls and deferred lease income were $929,452 and $1,286,383, respectively. The total value of vacation and sick leave balances due employees as of September 30, 2014 was $480,943. Outstanding noncurrent obligations totaling $1,627,389 is the portion of prepaid tolls and deferred lease income not expected to be earned within the following 12 months and compensated absences not expected to be paid within the following 12 months. Prepaid tolls increased by $23,520 primarily due to the increase in prepaid toll account balances. Unearned revenue decreased by $195,777 during fiscal year 2013-2014. Compensated absences decreased by $531 from fiscal year 2012-2013 to 2013-2014.

As of September 30, 2013, prepaid tolls and deferred lease income were $905,932 and $1,482,160, respectively. The total value of vacation and sick leave balances due employees as of September 30, 2013 was $481,474. Outstanding noncurrent obligations totaling $1,734,634 is the portion of prepaid tolls and deferred lease income not expected to be earned within the following 12 months and compensated absences not expected to be paid within the following 12 months. Prepaid tolls increased by $32,857 primarily due to the increase in prepaid toll account balances. Unearned revenue decreased by $196,045 during fiscal year 2012-2013. Compensated absences decreased by $39,595 from fiscal year 2011-2012 to 2012-2013.

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. For 2014, the Mackinac Bridge's condition was rated "good" as determined by inspection procedures.

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, 2014, the Authority had no pending or threatening litigation that would have a material effect on its financial statements. During fiscal year 2013-2014, the Authority undertook its regular and prudent assessment of the various areas of risk to its assets and operations. 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 the licensed vehicles and physical damage to the Mackinac Bridge itself. The Authority maintains insurance for licensed vehicles. The Authority does not insure the bridge structure itself for physical damage.

Statement of Net Position

	September 30, 2014	September 30, 2013
Assets		
Current assets:		
Cash (Note 4)	$ 935,713	$ 744,348
Investments (Note 4)	5,004,616	1,366,494
Other assets	70,397	49,917
Total current assets	6,010,726	2,160,759
Noncurrent assets:		
Long-term investments (Note 4)	60,435,807	61,905,264
Capital assets (Note 5):		
Capital assets not being depreciated	103,074,854	102,846,644
Other capital assets - Net of depreciation	4,464,534	4,429,315
Total noncurrent assets	167,975,195	169,181,223
Total assets	**$ 173,985,921**	**$ 171,341,982**
Liabilities		
Current liabilities:		
Accounts payable	$ 807,363	$ 3,206,146
Due to State of Michigan (Note 6)	1,843,693	2,541,559
Prepaid tolls (Note 7)	873,180	832,188
Unearned revenue (Note 7)	90,033	210,210
Compensated absences (Note 7)	106,176	92,534
Total current liabilities	3,720,445	6,882,637
Noncurrent liabilities:		
Prepaid tolls (Note 7)	56,272	73,744
Unearned revenue (Note 7)	1,196,350	1,271,950
Compensated absences (Note 7)	374,767	388,940
Total noncurrent liabilities	1,627,389	1,734,634
Total liabilities	5,347,834	8,617,271
Net Position		
Net investment in capital assets	107,539,388	107,275,959
Unrestricted (Note 1)	61,098,699	55,448,752
Total net position	168,638,087	162,724,711
Total liabilities and net position	**$ 173,985,921**	**$ 171,341,982**

The Notes to Financial Statements are an Integral Part of this Statement.

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended September 30	
	2014	2013
Operating Revenue - Tolls, fees, and leases	$ 21,045,084	$ 21,207,723
Operating Expenses		
Bridge operations	2,017,858	2,008,362
Maintenance	2,011,475	2,056,343
Administration	576,757	592,256
Finance	595,125	621,257
General operations	351,007	310,925
Preservation costs	10,255,894	15,024,874
Total operating expenses	15,808,116	20,614,017
Operating Income	5,236,968	593,706
Nonoperating Revenue - Investment income (loss)	1,176,408	(1,232,725)
Payments on Advance to the State of Michigan (Note 3)	(500,000)	(500,000)
Change in Net Position	5,913,376	(1,139,019)
Net Position - Beginning of year	162,724,711	163,863,730
Net Position - End of year	**$ 168,638,087**	**$ 162,724,711**

Statement of Cash Flows

	September 30, 2014	September 30, 2013
Cash Flows from Operating Activities		
Tolls and fees	$ 20,858,111	$ 21,030,021
Payments to suppliers	(871,395)	(249,302)
Payments to employees	(7,718,657)	(6,788,651)
Net cash provided by operating activities	12,268,059	13,992,068
Cash Flows from Capital and Related Financing Activities		
Proceeds from sales of capital assets	14,716	14,514
Purchase of capital assets	(673,765)	(795,704)
Payments of preservation costs	(9,925,388)	(10,962,640)
Payments on advance to the State of Michigan	(500,000)	(500,000)
Net cash used in capital and related financing activities	(11,084,437)	(12,243,830)
Cash Flows from Investment Activities		
Interest on investments	1,479,354	1,438,076
Purchases of investments	(12,662,217)	(18,258,609)
Proceeds from sale and maturities of investments	10,190,606	14,827,295
Net cash used in investing activities	(992,257)	(1,993,238)
Net Increase (Decrease) in Cash	191,365	(245,000)
Cash - Beginning of year	744,348	989,348
Cash - End of year	**$ 935,713**	**$ 744,348**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 5,236,968	$ 593,706
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	410,336	354,332
Preservation costs reported as cash flow from capital activities	9,925,388	10,962,640
Gain on sale of capital asset	(14,716)	(14,514)
Changes in assets and liabilities:		
Other assets	(20,480)	(6,583)
Accounts payable	(2,398,783)	1,976,417
Due to State of Michigan	(697,866)	328,853
Prepaid tolls	23,520	32,857
Unearned revenue	(195,777)	(196,045)
Compensated absences	(531)	(39,595)
Net cash provided by operating activities	**$ 12,268,059**	**$ 13,992,068**

During 2014 and 2013, there were no noncash investing, capital, and financing activities.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity - Mackinac Bridge Authority (the "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 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.

Accounting and Reporting Principles - The Authority follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The Authority follows the business-type activities reporting requirements of GASB Statement No. 34.

Basis of Accounting - Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Report Presentation - In accordance with government accounting principles, a government-wide presentation with program and general revenues is not applicable to special purpose governments engaged only in business-type activities.

Investments - Investments are recorded at fair value, based on quoted market prices. Investments maturing beyond one year of the fiscal year end are recorded as noncurrent assets.

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 as follows:

Buildings	39 years
Equipment and vehicles	3 to 7 years

Prepaid Tolls - Individuals and businesses have the ability to purchase cards which allow for multiple trips across the Mackinac Bridge. These cards can subsequently be reloaded at any time. These prepaid tolls are accrued at the time the cards are purchased or reloaded and are recognized as revenue each time the card is used to cross the bridge.

Note 1 - Summary of Significant Accounting Policies (Continued)

Unearned Revenue - Unearned revenue is reported for resources that have been received but not yet earned. Revenue from leasing fiber optic cables on the Mackinac Bridge is recognized as income over the life of the lease.

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

Revenue/Expenses - Operating revenue and expenses generally result from providing services and maintaining the Mackinac Bridge. All other revenue and expenses are reported as nonoperating. Revenue is recognized at the time it is earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

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 revenue and expenses during the period. Actual results could differ from those estimates.

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

	2014	2013
Designated for repairs, maintenance, and preservation of infrastructure	$ 59,598,699	$ 54,117,519
Designated for self-insurance	1,000,000	831,233
Undesignated	500,000	500,000
Total unrestricted net position	$ 61,098,699	$ 55,448,752

Note 2 - Operating Expenditures Reimbursement

Act No. 141 of the Public Acts of the State 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) has 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.

Note 2 - Operating Expenditures Reimbursement (Continued)

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 Michigan Public Act No. 5 of 1967, Extra Session, the Michigan 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 July 1, 1995, the Authority increased the fares on trucks to restructure the proportion of fares paid by trucks in relation to those paid by passenger vehicles. Effective May 1, 2003, the Authority increased fares to assist with expenses. Additionally, effective March 1, 2008, January 1, 2010, and January 1, 2012, 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. The Authority paid $500,000 in both 2014 and 2013 to the State of Michigan toward this advance. The total of these advances repaid as of September 30, 2014 is $13,250,000. The repayment amounts have been determined by the Authority's finance committee, which considers the 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, 2014 and 2013 were as follows:

	2014	2013
Deposits	$ 510,788	$ 459,898
Investments	65,440,423	63,271,758
Cash on hand	424,925	284,450
Total	$ 66,376,136	$ 64,016,106

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, 2014 and 2013, the Authority had $1,067,803 and $492,878, respectively, of bank deposits (checking and savings accounts). Of these amounts, $250,000 was covered by federal depository insurance coverage and the Authority had an additional $2,000,000 and $1,000,000 of collateral held in the pledging bank's trust department in the Authority's name at September 30, 2014 and 2013, respectively. The Authority believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation (FDIC) 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.

At year end, the Authority had the following investments and maturities:

Investment	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
2014 - U.S. government agency	$ 61,449,156	$ 1,013,349	$ 28,593,382	$ 16,675,649	$ 15,166,776
2013 - U.S. government agency	61,905,265	-	20,529,795	22,867,483	18,507,987

Note 4 - Deposits and Investments (Continued)

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. As of year end, the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
2014:			
Mutual fund	$ 3,991,267	Not rated	N/A
U.S. government agency	61,449,156	AA+	Standard & Poor's
2013:			
Mutual fund	$ 1,366,493	Not rated	N/A
U.S. government agency	61,905,265	AA+	Standard & Poor's

Concentration of Credit Risk of Investments

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 issuer. The policy requires the Authority to limit investments in securities to any single issuer to 5 percent of total investments with the following exception:

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, 2014 and 2013:

2014

Name of Issuer	Amount	Percentage of Investment
Federal Home Loan Banks	$ 7,050,737	10.8 %
Federal Farm Credit Banks	5,230,489	8.0 %
Fannie Mae	3,926,923	6.0 %
GNMA (Ginnie Mae)	14,783,348	22.6 %
Hashemite Kingdom of Jordan	3,977,200	6.1 %
Small Business Administration	3,439,152	5.3 %
U.S. Treasury note	4,961,328	7.6 %

Note 4 - Deposits and Investments (Continued)

2013

Name of Issuer	Amount	Percentage of Investment
Federal Farm Credit Banks	$ 7,601,035	12.0 %
Federal Home Loan Banks	11,059,644	17.5 %
Ginnie Mae	15,460,539	24.4 %
Small Business Administration	3,854,156	6.1 %
Fannie Mae	3,910,370	6.2 %

Note 5 - Capital Assets

Capital asset activity for the year ended September 30, 2014 was as follows:

	Balance October 1, 2013	Additions	Disposals	Balance September 30, 2014
Capital assets not being depreciated:				
Land	$ 125,000	$ -	$ -	$ 125,000
Infrastructure - Bridge	102,721,644	228,210	-	102,949,854
Subtotal	102,846,644	228,210	-	103,074,854
Capital assets being depreciated:				
Buildings	5,200,636	-	-	5,200,636
Equipment and vehicles	3,682,498	445,555	(97,673)	4,030,380
Subtotal	8,883,134	445,555	(97,673)	9,231,016
Accumulated depreciation:				
Buildings	2,248,443	135,409	-	2,383,852
Equipment and vehicles	2,205,376	274,927	(97,673)	2,382,630
Subtotal	4,453,819	410,336	(97,673)	4,766,482
Net capital assets being depreciated	4,429,315	35,219	-	4,464,534
Net capital assets	$ 107,275,959	$ 263,429	$ -	$ 107,539,388

Depreciation expense was charged to functions as follows for the year ended September 30, 2014:

Bridge operations	$ 54,657
Maintenance	115,295
General operations	98,878
Preservation costs	141,506
Total depreciation expense	$ 410,336

Note 5 - Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2013 was as follows:

	Balance October 1, 2012	Reclassifications	Additions	Disposals	Balance September 30, 2013
Capital assets not being depreciated:					
Land	$ 125,000	$ -	$ -	$ -	$ 125,000
Infrastructure - Bridge	102,757,555	(35,911)	-	-	102,721,644
Subtotal	102,882,555	(35,911)	-	-	102,846,644
Capital assets being depreciated:					
Buildings	5,161,286	-	39,350	-	5,200,636
Equipment and vehicles	3,022,752	35,911	756,354	(132,519)	3,682,498
Subtotal	8,184,038	35,911	795,704	(132,519)	8,883,134
Accumulated depreciation:					
Buildings	2,115,076	-	133,367	-	2,248,443
Equipment and vehicles	2,116,930	-	220,965	(132,519)	2,205,376
Subtotal	4,232,006	-	354,332	(132,519)	4,453,819
Net capital assets being depreciated	3,952,032	35,911	441,372	-	4,429,315
Net capital assets	$ 106,834,587	$ -	$ 441,372	$ -	$ 107,275,959

Depreciation expense was charged to functions as follows for the year ended September 30, 2013:

General operations	$ 96,911
Maintenance	114,921
Infrastructure preservation	142,500
Total depreciation expense	$ 354,332

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:

	2014	2013
Michigan Department of Military and Veterans Affairs	$ 66,973	$ 73,740
Michigan Department of Transportation	1,776,720	2,467,819
Total	$ 1,843,693	$ 2,541,559

Note 7 - Long-term Obligations

Long-term liability activity for the years ended September 30, 2014 and 2013 was as follows:

2014	Balance October 1, 2013	Additions	Reductions	Balance September 30, 2014	Due Within One Year
Compensated absences	$ 481,474	$ -	$ (531)	$ 480,943	$ 106,176
Prepaid tolls	905,932	23,520	-	929,452	873,180
Unearned revenue	1,482,160	42,000	(237,777)	1,286,383	90,033
Total	$ 2,869,566	$ 65,520	$ (238,308)	$ 2,696,778	$ 1,069,389

2013	Balance October 1, 2012	Additions	Reductions	Balance September 30, 2013	Due Within One Year
Compensated absences	$ 521,069	$ -	$ (39,595)	$ 481,474	$ 92,534
Prepaid tolls	873,075	32,857	-	905,932	832,188
Unearned revenue	1,678,205	-	(196,045)	1,482,160	210,210
Total	$ 3,072,349	$ 32,857	$ (235,640)	$ 2,869,566	$ 1,134,932

The estimated portion of prepaid toll balances remaining relatively unchanged throughout the fiscal year is recorded as noncurrent. Unearned revenue from leases that will not be earned within one year of the fiscal year end is reported as noncurrent. The estimated portion of employee leave balances remaining relatively unchanged throughout the fiscal year is recorded as noncurrent.

Note 8 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Effective August 5, 2009, the Authority entered into an agreement with the Michigan Department of Transportation to self-insure the Authority's assets and activities with the exception of its commercial automobile policy, in accordance with Section 254.01a of the Michigan Compiled Laws. The State of Michigan provides coverage for the Authority for medical benefits. The Authority is self-insured 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.

Note 8 - Risk Management (Continued)

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. Changes in the estimated liability for the past two fiscal years were as follows:

	2014	2013
Estimated liability - Beginning of year	$ 126,524	$ 41,328
Estimated incurred claims	2,075	244,030
Claim payments	(15,700)	(158,834)
Estimated liability - End of year	$ 112,899	$ 126,524

Note 9 - Pension 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 Office of Retirement Services, Department of Technology, Management and Budget. 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 supplemental information for the system. 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 Technology, Management and Budget, Office of Retirement Services at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Note 9 - Pension Plans and Postemployment Benefits (Continued)

Authority employees are included in either the Defined Benefit Plan (Plan 1) or the Defined Contribution Plan (Plan 2) as described below.

Defined Benefit Plan (Plan 1) - The Authority's employees hired prior to March 31, 1997 are enrolled in a noncontributory defined benefit plan through the State Employees' Retirement System upon meeting certain eligibility requirements. Changes in Public Act 264 of 2011 to the defined benefit plan granted members a choice regarding their future retirement plan. Members could voluntarily pay 4 percent of compensation to remain in this pension plan for future service or become a participant in the defined contribution plan for future years of service. Member elections were implemented on April 26, 2012. Generally, qualified participants in the defined benefit plan are eligible for pension, dental, vision, and major medical coverage. A member may retire with an age and service allowance after completing: (1) at least 10 years of credited service and (2) attaining the minimum retirement age of 60, or at least age 55 with 30 years of service credit. Pension benefits are determined using 1.5 percent times a member's final average compensation, calculated as the average of a member's monthly pay during the period of 36 consecutive months of credited service producing the highest monthly average multiplied by length of service. Employees become vested for retiree health insurance benefits with 10 or more years of service.

Defined Contribution Plan (Plan 2) - The Authority's employees hired after March 31, 1997 are enrolled in a defined contribution plan through the State Employees' Retirement System upon meeting certain eligibility requirements. Changes in Public Act 264 of 2011 included an option for former vested and nonvested members of the defined benefit plan to voluntarily elect to enroll in the defined contribution plan including those former employees returning to state employment between January 1, 2012 and January 1, 2014. Also, those currently in the defined contribution plan were given the option to change their retirement health care. Members could keep the graded premium subsidy to accrue credit toward insurance premiums in retirement, or choose the Personal Healthcare Fund plan to pay healthcare expenses in retirement. Generally, qualified participants in the defined contribution plan are eligible to retire at age 55 with 30 years of service or at age 60 with 10 years of service. The Authority contributes a mandatory 4 percent of the employees' salary and matches up to an additional 3 percent of the employees' contributions. Participants in this plan are 100 percent vested for any employee contributions. Participants become vested for 50 percent of the employer contributions after two years of service, 75 percent after three years of service, and 100 percent after four years of service. Employees become vested for retiree health insurance benefits with 10 or more years of service.

Note 9 - Pension Plans and Postemployment Benefits (Continued)

The cost of these pension and other postemployment benefits is allocated to the Authority as a percentage of gross payroll. Beginning with the October 25, 2012 pay date, the contribution rate to fund the unfunded actuarial accrued liability (UAAL) of other postemployment benefits (OPEB) was applied to combined payrolls of the defined benefit and defined contribution plans in accordance with MCL 38.38(3). The payroll for the Authority employees covered by Plan 1 and Plan 2 was $3,802,244, $3,868,720, and $3,660,774 for the years ended September 30, 2014, 2013, and 2012, respectively. The Authority's allocated contribution requirements and contributions actually made were $2,013,555, $1,868,886, and $1,221,445 for the years ended September 30, 2014, 2013, and 2012, respectively. Contributions represent approximately 53.0 percent, 48.3 percent, and 33.7 percent of covered payroll during 2014, 2013, and 2012, respectively.

Note 10 - Commitments

As of September 30, 2014, the Authority has outstanding commitments on contracts to complete bridge resurfacing, cleaning and maintenance of the bridge, and consulting projects in the amount of approximately $14,000,000.

Note 11 - Upcoming Accounting Pronouncements

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 (the "Statement") requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The Statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this Statement are effective for financial statements for the year ending September 30, 2015.

Required Supplemental Information

Required Supplemental Information
Modified Approach for Reporting Infrastructure Assets
September 30, 2014

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 by an independent engineering firm.

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 2014, 2013, 2012, 2011, and 2010 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 maintenance/preservation costs are based on projects expected to be completed during the fiscal year, which included priority preservation costs, as well as other non-priority preservation costs. The differences between the amounts needed (budgeted) and actual expenses are due to contractor variances in planned progress with painting projects and other preservation projects identified in the Authority's 20-year business plan.

	2014	2013	2012	2011	2010
Needed	$ 10,281,889	$ 16,369,375	$ 18,701,278	$ 14,874,189	$ 12,085,189
Actual	10,255,894	15,024,874	12,831,309	7,990,113	9,469,470

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.

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*

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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*

Independent Auditor's Report

To Management, the Board Members, and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Mackinac Bridge Authority

We have audited, in accordance with the 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, the financial statements of the Mackinac Bridge Authority (the "Authority"), a component unit of the State of Michigan, as of and for the year ended September 30, 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mackinac Bridge Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *d*eficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To Management, the Board Members, and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Mackinac Bridge Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mackinac Bridge Authority's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

December 1, 2014