Mackinac Bridge Authority

Financial Report
with Supplemental Information
September 30, 2015

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, 2015 and 2014 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 opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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, 2015 and 2014 and the changes in its financial position and its cash flows 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

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, the Authority adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as of September 30, 2015. Our opinion is not modified with respect to this matter.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the modified approach from reporting infrastructure assets, and pension schedules, 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 2, 2015 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 2, 2015

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, 2015. Please read it in conjunction with the Authority's basic financial statements and related footnotes, which follow this section.

Financial Highlights

- The Authority implemented GASB Statement No. 68 (GASB 68) during fiscal year 2014-2015. The requirements of GASB 68 incorporate provisions intended to reflect the effects of transactions and events related to pensions in the measurement of employer liabilities for pensions and recognition of pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.

- The Authority's total assets increased by $6,101,897, or 3.5 percent, over the course of fiscal year 2014-2015 operations. Total assets increased by $2,643,939 from fiscal year 2012-2013 to fiscal year 2013-2014.

- Total liabilities increased by $9,122,473, or 170.6 percent, during the current year. The Authority's implementation of GASB 68 resulted in a net pension liability of $6,389,681 at fiscal yearend, which accounts for the majority of this increase. The timing in payment of payroll invoices to the State of Michigan make up the rest. Total liabilities decreased by $3,269,437 from fiscal year 2012-2013 to fiscal year 2013-2014, primarily due to the timing of payroll invoices and payments to contractors.

- Total net position decreased by $2,616,369 primarily due to the impact of adopting GASB 68, resulting in a $3,539,317 decrease in unrestricted assets designated for future repair and maintenance of the Mackinac Bridge.

- Traffic crossing the Mackinac Bridge throughout the fiscal year totaled 3,840,115 vehicles, which was 178,561, or 4.9 percent, more vehicles than the previous fiscal year. Traffic decreased by 27,981, or 0.8 percent, from fiscal year 2012-2013 to fiscal year 2013-2014.

- Toll revenue increased by $832,963, or 4.0 percent, due to a 4.9 percent increase in traffic crossing the Mackinac Bridge over the fiscal year. Toll revenue decreased by $148,746, or 0.7 percent, from fiscal year 2012-2013 to fiscal year 2013-2014 due to a 0.8 percent decrease in traffic crossing the Mackinac Bridge over the fiscal year.

- Investment income increased by $1,277,181 due to an increase in interest earnings of $142,039 and market values increasing by $1,135,142. Investment income increased from fiscal year 2012-2013 to fiscal year 2013-2014 by $2,409,133, due to a 2.5 percent increase in interest earnings and an 89.8 percent increase in market values over that period.

- Total operating expenses increased from fiscal year 2013-2014 to fiscal year 2014-2015 by $4,305,884, or 27.2 percent, due primarily to an increase 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 2013-2014 to fiscal year 2014-2015 by $75,101, or 1.4 percent, due to reduced labor costs.
- Expenses to preserve and maintain the Mackinac Bridge and related infrastructure totaled $14,636,879 in the current fiscal year, which was $4,380,985 more than the previous year due primarily to an increase 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, 2015 and 2014, and how they have changed since September 30, 2014 and 2013, respectively. Net position, the difference between the Authority's assets, liabilities, and changes in deferred resources for pensions, 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 fiscal year 2014-2015 and fiscal year 2013-2014 to conduct the Authority's operations.

Financial Analysis

Net Position - The Authority's net position decreased by $2,616,369, or 1.6 percent, from fiscal year 2013-2014 to fiscal year 2014-2015, going from $168,638,087 at the beginning of the year to $166,021,718 at fiscal year end. This decrease was the result of a 3.5 percent increase in total assets offset by a 170.6 percent increase in total liabilities. 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 (see schedule of net position).

Total assets increased from fiscal year 2013-2014 to fiscal year 2014-2015 by $6,101,897, composed of a 32.8 percent increase in current assets, a 5.3 percent increase in long-term investments, and a 0.9 percent increase in capital assets. Current assets consist primarily of cash and short-term investments. Current assets increased throughout the year by $1,971,520 primarily due to an investment moved from long-term to current assets because it was maturing in less than a year, and an increase in cash. Long-term investments increased by $3,207,429 primarily due to the investment of $1,719,667 in operating income and the $1,587,251 of investment earnings as well as the $1,135,142 in unrealized investment gains. Cash increased by $700,324, or 74.8 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 $922,948 due to capital investment exceeding asset depreciation.

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 liabilities increased by $9,122,473, or 170.6 percent, from fiscal year 2013-2014 to fiscal year 2014-2015 due to the timing in payment of payroll invoices to the State of Michigan and vendor invoices for infrastructure repairs and maintenance during the fiscal year, and the $6,389,681 impact of GASB 68 adoption. 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.

Schedule of Net Position

	Fiscal Year		
	2015	2014	2013
Assets			
Current	$ 7,982,246	$ 6,010,726	$ 2,160,759
Noncurrent:			
Long-term investments	63,643,236	60,435,807	61,905,264
Capital assets	108,462,336	107,539,388	107,275,959
Total assets	180,087,818	173,985,921	171,341,982
Deferred Outflows	1,153,659	-	-
Liabilities			
Current	6,542,500	3,720,445	6,882,637
Noncurrent	7,927,807	1,627,389	1,734,634
Total liabilities	14,470,307	5,347,834	8,617,271
Deferred Inflows	749,452	-	-
Net Position			
Invested in capital assets	108,462,336	107,539,388	107,275,959
Unrestricted	57,559,382	61,098,699	55,448,752
Total net position	**$ 166,021,718**	**$ 168,638,087**	**$ 162,724,711**

*2014 and 2013 columns were not restated for the adoption of GASB 68

Change in Net Position - Net position changed throughout the year due to variances in revenue and expenses and changes in capital assets. Net position also changes due to transfers from equity accounts. Net position for fiscal year 2014-2015 decreased by $2,616,369 while net position for fiscal year 2013-2014 increased by $5,913,376. The reason for the reduction in fiscal year 2014-2015 was due to the shifting of $6,233,453 from net position to liabilities in compliance with GASB 68. This shift was partially offset by the operating income of $1,719,667 and investment income of $2,453,589. For the fiscal year ended September 30, 2013, net position decreased by $1,139,019 (see schedule of changes in net position).

Schedule of Changes in Net Position

	Fiscal Year		
	2015	2014	2013
Operating Revenue - Tolls, fees, and leases	$ 21,833,667	$ 21,045,084	$ 21,207,723
Operating Expenses			
Operations	5,477,121	5,552,222	5,589,143
Infrastructure preservation	14,636,879	10,255,894	15,024,874
Total expenses	20,114,000	15,808,116	20,614,017
Nonoperating Revenue (Expense)			
Investment income	2,453,589	1,176,408	(1,232,725)
Payments on advance to the State of Michigan	(556,172)	(500,000)	(500,000)
Changes in Net Position	**$ 3,617,084**	**$ 5,913,376**	**$ (1,139,019)**

*2014 and 2013 columns were not restated for the adoption of GASB 68

Operating revenue for fiscal year 2014-2015 of $21,833,667, consisting of vehicle tolls, miscellaneous fees, and lease income, increased by 3.7 percent from the previous year. Toll revenue went from $20,543,862 for fiscal year 2013-2014 to $21,372,313 for fiscal year 2014-2015. Expenses to operate, manage, and preserve the bridge and associated infrastructure during fiscal year 2014-2015 went from $15,808,116 for fiscal year 2013-2014 to $20,114,000 for fiscal year 2014-2015 for an increase of 27.2 percent. Bridge operations and management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, decreased by 1.4 percent for fiscal year 2014-2015 due to decreases in labor costs. Infrastructure preservation expenses for fiscal year 2014-2015, totaling $14,636,879, were $4,380,985 more than the $10,255,894 expensed during fiscal year 2013-2014. The reasons for this difference in fiscal year preservation expenses were an increase in required painting activity in fiscal year 2014-2015 and the timing of other preservation projects identified in the Authority's 20-year business plan.

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.

Net investment income for fiscal year 2014-2015 was $2,453,589, resulting in a 3.6 percent rate of return on invested assets. This was $1,277,181 more than the investment income of $1,176,408 reported for fiscal year 2013-2014, which showed a 1.8 percent rate of return. Interest earnings were $1,587,251 during fiscal year 2014-2015 on an average investment of $67.7 million, whereas $1,445,212 was earned during fiscal year 2013-2014 on an average investment of $64.4 million. This represents interest earnings at the rate of 2.4 percent and 2.2 percent, respectively. Interest earnings were increased by $1,135,142 in fiscal year 2014-2015 due to increases in market values. Interest earnings were reduced by $268,804 in fiscal year 2013-2014 due to a reduction in market values.

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 $62.9 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 reductions 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 $922,948, and $263,429 at September 30, 2015 and 2014, respectively. The increase in fiscal year 2014-2015 was the result of the $994,990 expenditure for the completion of the new toll system, and through the purchase of $332,309 in new equipment and vehicles. These additions to depreciable capital assets were reduced by the sale of $30,901 in excess equipment and vehicles and a $373,450 net increase in accumulated depreciation. 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.

As of September 30, 2015, prepaid tolls and unearned lease income were $1,139,412 and $1,211,047, respectively. The total value of vacation and sick leave balances due employees as of September 30, 2015 was $499,223. Outstanding noncurrent obligations totaling $7,927,807 is primarily due to the addition of net pension liability totaling $6,389,681 and 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 $209,960 primarily due to the increase in prepaid toll account balances. Unearned revenue decreased by $75,336 during fiscal year 2014-2015. Compensated absences increased by $18,280 from fiscal year 2013-2014 to 2014-2015.

As of September 30, 2014, prepaid tolls and unearned 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 unearned 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.

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 2015, 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, 2015, the Authority had no pending or threatening litigation that would have a material effect on its financial statements. During fiscal year 2014-2015, 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 real and personal property, excluding the Mackinac Bridge structure, through August 5, 2009, after which the Authority began its self-insurance program to cover these risks. 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, 2015	September 30, 2014
Assets		
Current assets:		
Cash (Note 4)	$ 1,636,037	$ 935,713
Investments (Note 4)	6,245,266	5,004,616
Other assets	100,943	70,397
Total current assets	7,982,246	6,010,726
Noncurrent assets:		
Long-term investments (Note 4)	63,643,236	60,435,807
Capital assets (Note 5):		
Capital assets not being depreciated	103,074,854	103,074,854
Other capital assets - Net of depreciation	5,387,482	4,464,534
Total noncurrent assets	172,105,572	167,975,195
Total assets	180,087,818	173,985,921
Deferred Outflows of Resources - Deferred outflows related to pensions (Note 9)	1,153,659	-
Liabilities		
Current liabilities:		
Accounts payable	1,006,308	807,363
Due to State of Michigan (Note 6)	4,224,636	1,843,693
Prepaid tolls (Note 7)	1,083,140	873,180
Unearned revenue (Note 7)	90,297	90,033
Compensated absences (Note 7)	138,119	106,176
Total current liabilities	6,542,500	3,720,445
Noncurrent liabilities:		
Prepaid tolls (Note 7)	56,272	56,272
Unearned revenue (Note 7)	1,120,750	1,196,350
Net pension liability (Note 9)	6,389,681	-
Compensated absences (Note 7)	361,104	374,767
Total noncurrent liabilities	7,927,807	1,627,389
Total liabilities	14,470,307	5,347,834
Deferred Inflows of Resources - Deferred inflows related to pensions (Note 9)	749,452	-
Net Position		
Net investment in capital assets	108,462,336	107,539,388
Unrestricted (Note 1)	57,559,382	61,098,699
Total net position	**$ 166,021,718**	**$ 168,638,087**

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended September 30	
	2015	2014
Operating Revenue - Tolls, fees, and leases	$ 21,833,667	$ 21,045,084
Operating Expenses		
Bridge operations	1,921,006	2,017,858
Maintenance	1,980,488	2,011,475
Administration	594,482	576,757
Finance	625,769	595,125
General operations	355,376	351,007
Preservation costs	14,636,879	10,255,894
Total operating expenses	20,114,000	15,808,116
Operating Income	1,719,667	5,236,968
Nonoperating Revenue - Investment income	2,453,589	1,176,408
Payments on Advance to the State of Michigan (Note 3)	(556,172)	(500,000)
Change in Net Position	3,617,084	5,913,376
Net Position - Beginning of year	168,638,087	162,724,711
Restatement due to change in accounting principle (Note 1)	(6,233,453)	-
Net Position - End of year	**$ 166,021,718**	**$ 168,638,087**

Statement of Cash Flows

	September 30, 2015	September 30, 2014
Cash Flows from Operating Activities		
Tolls and fees	$ 21,960,666	$ 20,858,111
Payments to suppliers	(1,158,078)	(871,395)
Payments to employees	(4,923,390)	(7,718,657)
Net cash provided by operating activities	15,879,198	12,268,059
Cash Flows from Capital and Related Financing Activities		
Proceeds from sales of capital assets	7,625	14,716
Purchase of capital assets	(1,327,300)	(673,765)
Payments of preservation costs	(11,308,538)	(9,925,388)
Payments on advance to the State of Michigan	(556,172)	(500,000)
Net cash used in capital and related financing activities	(13,184,385)	(11,084,437)
Cash Flows from Investing Activities		
Interest on investments	1,542,485	1,479,354
Purchases of investments	(19,232,081)	(12,662,217)
Proceeds from sale and maturities of investments	15,695,107	10,190,606
Net cash used in investing activities	(1,994,489)	(992,257)
Net Increase in Cash	700,324	191,365
Cash - Beginning of year	935,713	744,348
Cash - End of year	**$ 1,636,037**	**$ 935,713**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 1,719,667	$ 5,236,968
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	404,351	410,336
Preservation costs reported as cash flow from capital activities	11,308,538	9,925,388
Gain on sale of capital asset	(7,625)	(14,716)
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Other assets	(30,546)	(20,480)
Change in net pension liability and associated deferrals	(247,979)	-
Accounts payable	198,945	(2,398,783)
Due to State of Michigan	2,380,943	(697,866)
Prepaid tolls	209,960	23,520
Unearned revenue	(75,336)	(195,777)
Compensated absences	18,280	(531)
Net cash provided by operating activities	**$ 15,879,198**	**$ 12,268,059**

During 2015 and 2014, 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.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category, which is the deferred outflow of resources related to the pension.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category, which is the deferred inflow of resources related to the pension.

Pensions - For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS), and additions to/deductions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Change in Accounting - During the current year, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result, the financial statements now include a net pension liability for our unfunded defined benefit plan legacy costs. Some of the changes in this net pension liability each year will be recognized immediately as part of the pension expense measurement, and part will be deferred and recognized over future years. Refer to Note 9 for further details. As a result of implementing this statement, the net position of the Authority as of October 1, 2014 has been restated by ($6,233,453) to $162,404,634. Of the ($6,233,453) restatement, ($7,107,291) was related to the beginning of year net pension liability and $873,838 was related to the beginning of year deferred outflows for employer contributions made subsequent to the measurement date. The restatement of the fiscal year 2014 financial statements was not practical as all necessary information for such a restatement was not available from the pension plan. As such, the fiscal year 2014 financial statements have not been restated.

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

	2015	2014
Designated for repairs, maintenance, and preservation of infrastructure	$ 56,059,382	$ 59,598,699
Designated for self-insurance	1,000,000	1,000,000
Undesignated	500,000	500,000
Total unrestricted net position	$ 57,559,382	$ 61,098,699

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.

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 $556,172 in 2015 and $500,000 in 2014 to the State of Michigan toward this advance. The total of these advances repaid as of September 30, 2015 is $13,806,172. 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, 2015 and 2014 were as follows:

	2015	2014
Deposits	$ 1,427,850	$ 510,788
Investments	69,888,502	65,440,423
Cash on hand	208,187	424,925
Total	$ 71,524,539	$ 66,376,136

Note 4 - Deposits and Investments (Continued)

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, 2015 and 2014, the Authority had $1,912,740 and $1,067,803, 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 of collateral held in the pledging bank's trust department in the Authority's name at both September 30, 2015 and 2014. 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
2015 - U.S. government agency	$ 65,664,058	$ 2,020,823	$ 19,439,315	$ 20,130,356	$ 24,073,564
2014 - U.S. government agency	61,449,156	1,013,349	28,593,382	16,675,649	15,166,776

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
2015:			
Mutual fund	$ 4,224,444	Not rated	N/A
U.S. government agency	65,664,058	AA+	Standard & Poor's
2014:			
Mutual fund	$ 3,991,267	Not rated	N/A
U.S. government agency	61,449,156	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, 2015 and 2014:

2015

Name of Issuer	Amount	Percentage of Investment
Federal Farm Credit Banks	$ 4,187,023	6.0 %
Fannie Mae	4,005,614	5.7 %
GNMA (Ginnie Mae)	15,622,705	22.4 %
Hashemite Kingdom of Jordan	4,081,464	5.8 %
Private Export Funding	6,124,005	8.8 %
Small Business Administration	8,839,852	12.6 %
U.S. Treasury note	5,107,788	7.3 %

Note 4 - Deposits and Investments (Continued)

2014

Name of Issuer	Amount	Percentage of Investment
Federal Home Loan Banks	$ 7,050,737	10.8 %
Federal Farm Loan 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 5 - Capital Assets

Capital asset activity for the year ended September 30, 2015 was as follows:

	Balance October 1, 2014	Additions	Disposals	Balance September 30, 2015
Capital assets not being depreciated:				
Land	$ 125,000	$ -	$ -	$ 125,000
Infrastructure - Bridge	102,949,854	-	-	102,949,854
Subtotal	103,074,854	-	-	103,074,854
Capital assets being depreciated:				
Buildings	5,200,636	-	-	5,200,636
Equipment and vehicles	4,030,380	1,327,300	(30,901)	5,326,779
Subtotal	9,231,016	1,327,300	(30,901)	10,527,415
Accumulated depreciation:				
Buildings	2,383,852	129,357	-	2,513,209
Equipment and vehicles	2,382,630	274,995	(30,901)	2,626,724
Subtotal	4,766,482	404,352	(30,901)	5,139,933
Net capital assets being depreciated	4,464,534	922,948	-	5,387,482
Net capital assets	$ 107,539,388	$ 922,948	$ -	$ 108,462,336

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to functions as follows for the year ended September 30, 2015:

Bridge operations	$ 54,657
Maintenance	114,982
General operations	92,825
Preservation costs	141,888
Total depreciation expense	$ 404,352

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 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:

	2015	2014
Michigan Department of Military and Veterans Affairs	$ 69,683	$ 66,973
Michigan Department of Transportation	4,154,953	1,776,720
Total	$ 4,224,636	$ 1,843,693

Note 7 - Long-term Obligations

Long-term liability activity for the years ended September 30, 2015 and 2014 was as follows:

2015	Balance October 1, 2014	Additions	Reductions	Balance September 30, 2015	Due Within One Year
Compensated absences	$ 480,943	$ 156,399	$ (138,119)	$ 499,223	$ 138,119
Prepaid tolls	929,452	209,960	-	1,139,412	1,083,140
Unearned revenue	1,286,383	264	(75,600)	1,211,047	90,297
Total	$ 2,696,778	$ 366,623	$ (213,719)	$ 2,849,682	$ 1,311,556

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

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.

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:

	2015	2014
Estimated liability - Beginning of year	$ 112,899	$ 126,524
Estimated incurred claims	(80,190)	2,075
Claim payments	(18,718)	(15,700)
Estimated liability - End of year	$ 13,991	$ 112,899

Note 9 - Pension Plan and Other Employee Benefits

Plan Description - The Michigan State Employees' Retirement System (the "System" or SERS) is a single-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "State") and created under Public Act 240 of 1943, as amended. Section 2 of this act established the board's authority to promulgate or amend the provisions of the System. The board consists of nine members - four appointed by the governor, which consist of two employee members and two retirant members; the insurance commissioner; attorney general; state treasurer; deputy legislative auditor general; and state personnel director, who serves as an ex-officio member. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to the State's government employees.

The Michigan State Employees' Retirement System is accounted for in a separate pension trust fund and also issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or (800) 381-5111.

Note 9 - Pension Plan and Other Employee Benefits (Continued)

Benefits Provided

Introduction - Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 240 of 1943, State Employees' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability, and survivor benefits.

A member who has separated from employment may request a refund of his or her member contribution account. A refund may cancel a former member's rights to future benefits. However, former members who return to employment and who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Effective March 31, 1997, Public Act 487 of 1996 closed the plan to new entrants. All new employees become members of the defined contribution plan. The Public Act allows returning employees and members who left State employment on or before March 31, 1997 to elect the defined benefit plan instead of the defined contribution plan.

Public Act 185 of 2010 established a pension supplement. Members who retired under the retirement incentive of the legislation agreed to forfeit accumulated leave balances, excluding banked leave time; in exchange, they receive a pension supplement for 60 months to their retirement allowance payments equal to 1/60 of the amount forfeited from funds, beginning January 1, 2011.

Pension Reform of 2012 - On December 15, 2011, the governor signed Public Act 264 of 2011 into law. The legislation granted members a choice regarding their future retirement plan. They had the following options:

- Option 1: DB Classified. Members voluntarily elected to remain in the defined benefit (DB) plan for future service and contribute 4 percent of their annual compensation to the pension fund until they terminate state employment. The 4 percent contribution began on April 1, 2012.
- DB.30. Members voluntarily elected to remain in the DB plan for future ervice and contribute 4 percent of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's defined contribution (DC) plan. The 4 percent contribution began April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.

Note 9 - Pension Plan and Other Employee Benefits (Continued)

- Option 3: DB/DC Blend. Members voluntarily elected not to pay the 4 percent and therefore became participants in the DC plan for future service beginning April 1, 2012. As a DC plan participant, they receive a 4 percent employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3 percent of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are re-employed by the State on or after January 1, 2012, become participants in the DC plan. Their pension calculation is determined by their final average compensation (FAC) and years of service as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members of the DB plan (with less than 10 years of service) who are re-employed by the State on or after January 1, 2012 and before January 1, 2014, become participants in the DC plan. When they have earned sufficient service credit for vesting (10 years) they would be eligible for a pension based on their FAC and years of service in the DB plan as of March 31, 2012. They retain their eligibility for the retiree health insurance premium subsidy offered by the State.

Former nonvested members (with less than 10 years of service) of the DB plan who are re-employed by the State on or after January 1, 2014 become members of the DC plan. Any service credit previously earned would count toward vesting for the DC plan. They will not be eligible for any pension or retiree health insurance coverage premium but will become a participant in the Personal Healthcare Fund where they will contribute up to 2 percent of their compensation to a 401(k) or 457 account, earning a matching 2 percent employer contribution. They will also receive a credit into a health reimbursement account (HRA) at termination if they terminate employment with at least 10 years of service. The credit will be $2,000 for participants who are at least 60 years old or $1,000 for participants who are less than 60 years old at termination.

Regular Retirement - The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5 percent of a member's FAC multiplied by the years and partial year of credited service and is payable monthly over the member's lifetime.

Under PA 264 of 2011, FAC is initially determined as the annual average of the highest three years of compensation (including overtime paid before January 1, 2012, but excluding overtime paid after December 31, 2011). If the end date for the initial FAC calculation is between January 1, 2012 and January 1, 2015, then a prorated amount of post-2008 average overtime will be added to the initial FAC calculation. If the end date for the initial FAC calculation is January 1, 2015 or later, then an annual average of overtime – for the six-year period ending on the FAC calculation date – will be added to that initial FAC calculation to get the final FAC number.

Note 9 - Pension Plan and Other Employee Benefits (Continued)

For members who switch to the DC plan for future service, the pension calculation FAC times 1.5 percent times years of service will be determined as of the point the member switches to the DC plan. If the FAC period includes the date of the switch to the DC plan, then the FAC will include up to 240 hours of accrued annual leave multiplied by the rate of pay as of the date of the switch. The hours will be paid at separation.

A member may retire and receive a monthly benefit after attaining:

1. age 60 with 10 or more years of credited service;
2. age 55 with 30 or more years of credited service; or
3. age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5 percent for each month from the member's age on the effective date of retirement to the date the member will attain age 60.

Employees in covered positions are eligible for supplemental benefits and may retire after attaining:

1. age 51 with 25 or more years in a covered position; or
2. age 56 with 10 or more years in a covered position.

In either case, the three years immediately preceding retirement must have been in a covered position.

Deferred Retirement - Any member with 10 or more years of credited service who terminates employment but has not reached the age of retirement is a deferred member and is entitled to receive a monthly pension upon reaching age 60, provided the member's accumulated contributions have not been refunded. Deferred retirement is available after five years of service for State employees occupying unclassified positions in the executive and legislative branches and certain Department of Community Health employees subject to reduction in force lay-offs by reason of deinstitutionalization.

Non-duty Disability Benefit - A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as a State employee is eligible for a non-duty disability pension. The non-duty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

Note 9 - Pension Plan and Other Employee Benefits (Continued)

Duty Disability Benefit - A member who becomes totally and permanently disabled from performing duties as a State employee as a direct result of State employment and who has not met the age and service requirement for a regular pension is eligible for a duty disability pension. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of the pension benefit and increase the minimum annual payment. If the member is under age 60, the duty disability allowance is now a minimum of $6,000 payable annually. At age 60, the benefit is recomputed under service retirement.

Survivor Benefit - Upon the death of a member who was vested, the surviving spouse shall receive a benefit calculated as if the member had retired the day before the date of death and selected a survivor pension. Certain designated beneficiaries can be named to receive a survivor benefit. Public Act 109 of 2004 amended the State Employees' Retirement Act to change the calculation of Duty Death benefits and redefines eligibility for deceased member's survivors. The new minimum duty-related death benefit has been increased to $6,000.

Pension Payment Options - When applying for retirement, an employee may name a person other than his or her spouse as a beneficiary if the spouse waives this right. If a beneficiary is named, the employee must choose whether the beneficiary will receive 100 percent, 75 percent, or 50 percent of the retiree's pension benefit after the retiree's death. The decision is irrevocable. A description of the options follows.

Regular Pension - The pension benefit is computed with no beneficiary rights. If the retiree made contributions as an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to beneficiaries.

100 percent Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 100 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

75 percent Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 75 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 percent option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

Note 9 - Pension Plan and Other Employee Benefits (Continued)

50 percent Survivor Pension - Under this option, after the retiree's death, the beneficiary will receive 50 percent of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is lower than the factor used in the 100 percent or 75 percent option previously described. If the beneficiary predeceases the retiree, the pension "pops-up" to the regular pension amount; another beneficiary cannot be named.

Equated Pension - An equated pension may be chosen by any member under age 65 except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with Regular, 100 percent, 75 percent, or 50 percent option. At age 65, the monthly amount is permanently reduced. The initial and reduced amounts are based on an estimate of social security benefits at age 65, provided by the Social Security Administration Office. In order to calculate this benefit, members choosing this option must provide the Office of Retirement Services (ORS) with an estimate from the Social Security Administration Office. The actual amount received from Social Security may vary from the estimate.

Post-retirement Adjustments - One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977, and 1987. Beginning October 1, 1988, a 3 percent noncompounding increase, up to a maximum of $25 monthly, is paid each October to recipients who have been retired 12 full months. Beginning in 1983, eligible benefit recipients share in a distribution of investment income earned in excess of 8 percent annually. This distribution is known as the supplemental payment. The supplemental payment is offset by one year's cumulative increases received after the implementation of the annual 3 percent increase in benefits. These adjustment payments were not issued during fiscal years 1991 through 1994. Members who retired on or after October 1, 1987 are not eligible for the supplemental payment.

Contributions:

Member Contributions - Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4 percent of compensation to the retirement system. In addition, members may voluntarily contribute to the System for the purchase of creditable service, such as military service or maternity leave, or a universal buy-in. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Note 9 - Pension Plan and Other Employee Benefits (Continued)

Employer Contributions - The statute requires the employer to contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-dollar value funding principles so the contribution rates do not have to increase over time. For fiscal year 2015, the Authority's contribution rate was 27.46 percent of the defined benefit employee wages and 24.19 percent of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ended September 30, 2015 was $968,606.

Payable to the Pension Plan

At September 30, 2015, the Authority did not report a payable for contributions to the plan required for the year ended September 30, 2015.

Net Pension Liability, Deferrals, and Pension Expense

At September 30, 2015, the Authority reported a liability of $6,389,681 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of as of September 30, 2013, which used update procedures to roll forward the estimated liability to September 30, 2014. The Authority's proportion of the net pension liability was based on the Authority's actuarially required contribution for the year ended September 30, 2014, relative to all other contributing employers. At September 30, 2014, the Authority's proportion was 0.12 percent, which was unchanged from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015, the Authority recognized pension expense of $720,627. At September 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between Authority contributions and proportionate share of contributions	$ 3	$ -
Changes in assumptions	185,050	-
Net difference between projected and actual earnings on pension plan investments	-	749,452
Authority's contributions to the plan subsequent to the measurement date	968,606	-
Total	$ 1,153,659	$ 749,452

Note 9 - Pension Plan and Other Employee Benefits (Continued)

Amounts reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Pension Expense Amount
2016	$ (2,310)
2017	(187,363)
2018	(187,363)
2019	(187,363)

Actuarial Assumptions - The Authority's net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation rate	3.5%
Projected salary increases	3.5 - 12.5%, including wage inflation at 3.5%
Investment rate of return	8.0%
Cost-of-living pension adjustment	3% Annual Non-Compounded with Maximum Annual Increases of 4300 for those eligible

Mortality rates were based on the RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2015 projections scale BB. For retirees, 100 percent of the table rates were used. For active members, 50 percent of the table rates were used for males and females.

Note 9 - Pension Plan and Other Employee Benefits (Continued)

Discount Rate - A discount rate of 8.0 percent was used to measure the total pension liability. This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0 percent. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return*
Domestic equity	28.0 %	4.8 %
International equity	16.0 %	6.1 %
Alternative investment pools	18.0 %	8.5 %
Real estate and infrastructure pools	10.0 %	5.3 %
Fixed-income pools	11.0 %	1.5 %
Absolute return pools	16.0 %	6.3 %
Short-term investment pools	2.0 %	(0.2)%

* Rate of return does not include 2.5 percent inflation

Note 9 - Pension Plan and Other Employee Benefits (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Net pension liability	$ 8,314,095	$ 6,389,681	$ 4,734,043

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the SERS Comprehensive Annual Financial Report that may be obtained by visiting (www.michigan.gov/ors).

Assumption Changes - Assumption changes, based on the adoption of the findings of the experience study covering the period from October 1, 2007 through September 30, 2012, increased the computed liabilities.

Defined Contribution Plan - The Authority participates in the State of Michigan's defined contribution plan system. 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. 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 employers and employees are required to make contributions and establishes the benefit provisions for the plan. The Authority's contributions to the plan were approximately $190,000 and $200,000 for the years ended September 30, 2015 and 2014, respectively, and are recorded in salaries and benefits expense.

Postemployment Benefits - The Authority participates in the State of Michigan's cost-sharing, multiemployer, postemployment benefit plan. The cost of retiree healthcare benefits is an allocation calculated by the State of Michigan. The contributions paid to this plan for the year ended September 30, 2015 totaled 22.76 percent of payroll. 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 will receive the full amount of healthcare benefits from the State of Michigan. 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 - Commitments

As of September 30, 2015, 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 $1,378,000.

Additionally, the Authority has committed to contributing between $50,000 and $75,000 annually during fiscal years 2016, 2017, and 2018 toward a marketing campaign for Upper Peninsula tourism.

Note 11 - Upcoming Accounting Pronouncements

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government’s financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted, during the Authority's 2016 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the Authority to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Michigan State Employees' Retirement System. 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 the Authority’s financial statements for the year ending September 30, 2018.

Required Supplemental 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 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 2015, 2014, 2013, 2012, and 2011 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.

	2015	2014	2013	2012	2011
Needed	$ 12,696,194	$ 10,281,889	$ 16,369,375	$ 18,701,278	$ 14,874,189
Actual	14,636,879	10,255,894	15,024,874	12,831,309	7,990,113

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.

Required Supplemental Information
Schedule of the Authority's Proportionate Share of the Net Pension Liability
State Employees' Retirement System
September 30, 2015

Authority's proportion of the net pension liability		0.12 %
Authority's proportionate share of the net pension liability	$	6,389,681
Authority's covered employee payroll	$	3,957,563
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll		161.5 %
Plan fiduciary net position as a percentage of total pension liability		68.10 %

Required Supplemental Information
Schedule of Authority Contributions
State Employees' Retirement System
September 20, 2015

Statutorily required contribution	$	968,606
Contributions in relation to the statutorily required contribution		968,606
Contribution deficiency	$	-
Authority's covered employee payroll	$	3,957,563
Contributions as a percentage of covered employee payroll		24.5 %

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The schedule of contributions is presented to show the responsibility of the Authority in meeting the actuarial requirements to maintain the System on a sound financial basis.

The schedule of the proportionate share of the net pension liability and schedule of contributions are schedules that are required in implementing GASB Statement No. 68. The schedule of the proportionate share of the net pension liability represents in actuarial terms, the accrued liability less the market value of assets. The schedule of contributions is a comparison of the Authority's contributions to the actuarially determined contributions.

The information presented in the schedule of contributions was used in the actuarial valuation for the purpose of determining the actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the pension plan follows.

Valuation - Actuarially determined contribution amounts are calculated as of September 30 each year.

Methods and Assumptions Used to Determine Contribution for Fiscal Year 2015:

Actuarial cost method	Entry age, normal
Amortization method	Level dollar, dlosed
Remaining amortization period	23 years
Asset valuation method	5-year smoothed market
Inflation	2.50%
Salary increases	3.5% wage inflation
Investment rate of return	8.00% net of investment and administrative expenses
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Combined Health Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (set forward 2 years for men, with 81% of the male rates used at ages 80-103 and 107% of the female rates)

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 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, 2015 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 2, 2015.

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 deficiency 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

December 2, 2015