Mackinac Bridge Authority

Financial Report
with Supplemental Information
September 30, 2017

Mackinac Bridge Authority

Contents

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Independent Auditor's Report

To the Board Members
Mackinac Bridge Authority
St. Ignace, Michigan and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Lansing, 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, 2017 and 2016, 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, 2017 and 2016 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
Mackinac Bridge Authority
St. Ignace, Michigan and
Mr. Doug A. Ringler, CPA, CIA
Auditor General, State of Michigan
Lansing, Michigan

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplemental information, 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 4, 2017 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 4, 2017

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, 2017. 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 $10,924,000, or 5.7 percent, over the course of fiscal year 2016-2017 operations. Total assets increased by $10,419,596 from fiscal year 2014-2015 to fiscal year 2015-2016.

- Total liabilities increased by $2,505,932, or 22.3 percent, during the current fiscal year, primarily due to the timing of payroll invoices and payments to contractors. Total liabilities decreased by $3,211,672, or 22.2 percent, from fiscal year 2014-2015 to fiscal year 2015-2016.

- Total net position increased by $8,567,481, or 4.8 percent, consisting of an $8,533,893 increase in unrestricted assets designated for future repair and maintenance of the Mackinac Bridge, and a $33,588 increase in invested capital assets.

- Traffic crossing the Mackinac Bridge throughout the fiscal year totaled 4,153,030 vehicles, which was 102,601, or 2.5 percent, more vehicles than the previous fiscal year. Traffic increased by 210,314, or 5.5 percent, from fiscal year 2014-2015 to fiscal year 2015-2016.

- Gross toll revenue increased by $951,105, or 4.3 percent, due to a 2.5 percent increase in traffic crossing the Mackinac Bridge over the fiscal year, and a higher increase in commercial traffic over the fiscal year. Toll revenue increased by $830,207, or 3.9 percent, from fiscal year 2014-2015 to fiscal year 2015-2016 due to a 5.5 percent increase in traffic crossing the Mackinac Bridge over the fiscal year.

- Investment income decreased by $2,305,896 due to an increase in interest earnings of $66,073 offset by market values decreasing in the amount of $2,371,969. Investment income decreased from fiscal year 2014-2015 to fiscal year 2015-2016 by $171,154, due to an increase in interest earnings of $128,476 offset by market values decreasing by $299,630.

- Total operating expenses increased from fiscal year 2015-2016 to fiscal year 2016-2017 by $4,572,092, or 44.7 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 increased from fiscal year 2015-2016 to fiscal year 2016-2017 by $418,014, or 6.6 percent, due to increased toll collection and labor costs.

- Expenses to preserve and maintain the Mackinac Bridge and related infrastructure totaled $8,049,054 in the current fiscal year, which was $4,154,078 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, 2017 and 2016, and how they have changed since September 30, 2016 and 2015, 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 2016-2017 and fiscal year 2015-2016 to conduct the Authority's operations.

Financial Analysis

Net Position - The Authority's net position increased by $8,567,481, or 4.8 percent, from fiscal year 2015-2016 to fiscal year 2016-2017, going from $180,300,723 at the beginning of the year to $188,868,204 at fiscal year end. This increase was the result of a 5.7 percent increase in total assets and a 22.3 percent increase in total liabilities. The Authority's net position increased by $14,279,005, or 8.6 percent, from fiscal year 2014-2015 to fiscal year 2015-2016, going from $166,021,718 at the beginning of the year to $180,300,723 at fiscal year end. This increase was the result of a 5.8 percent increase in total assets and a 22.2 percent decrease in total liabilities (see statement of net position).

Total assets increased from fiscal year 2015-2016 to fiscal year 2016-2017 by $10,924,000, composed of a 16.0 percent increase in current assets, a 13.0 percent increase in noncurrent investments, and a less than 0.1 percent increase in capital assets. Current assets consist primarily of cash and current investments. Current assets increased throughout the year by $1,024,205, primarily due to cash and investments moving from noncurrent assets to current assets. Noncurrent investments increased by $9,866,207, primarily due to the investment of $8,993,161 in operating income, the $1,781,800 of investment earnings partially offset by the $1,805,261 in unrealized investment losses. Cash increased by $875,526, or 86.2 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 $33,588 due to capital asset investment exceeding depreciation.

Total assets increased from fiscal year 2014-2015 to fiscal year 2015-2016 by $10,419,596, composed of a 19.9 percent decrease in current assets, a 19.3 percent increase in noncurrent investments, and a 0.2 percent decrease in capital assets. Current assets consist primarily of cash and current investments. Current assets decreased throughout the year by $1,592,114, primarily due to cash and investments moving from current assets to noncurrent assets. Noncurrent investments increased by $12,271,131, primarily due to the investment of $12,496,570 in operating income, and the $1,715,727 of investment earnings partially offset by the $566,708 in unrealized investment gains. Cash decreased by $620,381, or 37.9 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 decreased by $259,421 due to asset depreciation exceeding capital investment.

Total liabilities increased by $2,505,932, or 22.3 percent, from fiscal year 2015-2016 to fiscal year 2016-2017 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. Total liabilities decreased by $3,211,672, or 22.2 percent, from fiscal year 2014-2015 to fiscal year 2015-2016 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.

Statement of Net Position

	Fiscal Year		
	2017	2016	2015
Assets			
Current	$ 7,414,337	$ 6,390,132	$ 7,982,246
Noncurrent:			
Long-term investments	85,780,574	75,914,367	63,643,236
Capital assets	108,236,503	108,202,915	108,462,336
Total assets	201,431,414	190,507,414	180,087,818
Deferred Outflows	1,201,833	1,052,207	1,153,659
Liabilities			
Current	5,309,708	2,880,521	6,542,500
Noncurrent	8,454,859	8,378,114	7,927,807
Total liabilities	13,764,567	11,258,635	14,470,307
Deferred Inflows	476	263	749,452
Net Position			
Invested in capital assets	108,236,503	108,202,915	108,462,336
Unrestricted	80,631,701	72,097,808	57,559,382
Total net position	**$ 188,868,204**	**$ 180,300,723**	**$ 166,021,718**

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 changed due to transfers from equity accounts. Net position for fiscal year 2016-2017 increased by $8,567,481, while net position for fiscal year 2015-2016 increased by $14,279,005 (see statement of changes in net position).

Statement of Changes in Net Position

	Fiscal Year		
	2017	2016	2015
Operating Revenue - Tolls, fees, and leases	$ 23,794,217	$ 22,725,534	$ 21,833,667
Operating Expenses			
Operations	6,752,002	6,333,988	5,477,121
Infrastructure preservation	8,049,054	3,894,976	14,636,879
Total expenses	14,801,056	10,228,964	20,114,000
Nonoperating Revenue (Expense)			
Annual Bridge Walk donations	97,781	-	-
Payments on advance to the State of Michigan	(500,000)	(500,000)	(556,172)
Investment (loss) income	(23,461)	2,282,435	2,453,589
Changes in Net Position	**$ 8,567,481**	**$ 14,279,005**	**$ 3,617,084**

Operating revenue for fiscal year 2016-2017 of $23,794,217, consisting of vehicle tolls, miscellaneous fees, and lease income, increased by 4.7 percent from the previous year. Net toll revenue went from $22,204,658 for fiscal year 2015-2016 to $23,090,839 for fiscal year 2016-2017. Expenses to operate, manage, and preserve the bridge and associated infrastructure during fiscal year 2016-2017 went from $10,228,964 for fiscal year 2015-2016 to $14,801,056 for fiscal year 2016-2017 for an increase of 44.7 percent. Bridge operations and management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, increased by 6.6 percent for fiscal year 2016-2017 primarily due to increases in labor costs. Infrastructure preservation expenses for fiscal year 2016-2017, totaling $8,049,054, were $4,154,078 more than the $3,894,976 expensed during fiscal year 2015-2016. The reasons for this difference in fiscal year preservation expenses were an increase in required painting activity in fiscal year 2016-2017 and the timing of other preservation projects identified in the Authority's 20-year business plan.

Operating revenue for fiscal year 2015-2016 of $22,725,534, consisting of vehicle tolls, miscellaneous fees, and lease income, increased by 4.1 percent from the previous year. Net toll revenue went from $21,372,313 for fiscal year 2014-2015 to $22,204,658 for fiscal year 2015-2016. Expenses to operate, manage, and preserve the bridge and associated infrastructure during fiscal year 2015-2016 went from $20,114,000 for fiscal year 2014-2015 to $10,228,964 for fiscal year 2015-2016 for a decrease of 49.1 percent. Bridge operations and management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, increased by 15.6 percent for fiscal year 2015-2016 due to increases in labor costs and the full operational costs of the new toll system installed in fiscal year 2014-2015. These toll system costs include the hosting of system software and hosting of traffic, revenue, and prepaid toll account data, system maintenance, software licensing, and system depreciation. Infrastructure preservation expenses for fiscal year 2015-2016, totaling $3,894,976, were $10,741,903 less than the $14,636,879 expensed during fiscal year 2014-2015. The reasons for this difference in fiscal year preservation expenses were a decrease in required painting activity in fiscal year 2015-2016 and the timing of other preservation projects identified in the Authority's 20-year business plan.

Net investment income for fiscal year 2016-2017 was a loss of $23,461, resulting in a negative 0.1 percent rate of return on invested assets. This was $2,305,896 less than the investment income of $2,282,435 reported for fiscal year 2015-2016, which showed a 3.1 percent rate of return. Interest earnings were $1,781,800 during fiscal year 2016-2017 on an average investment of $86.2 million, whereas $1,715,727 was earned during fiscal year 2015-2016 on an average investment of $74.5 million. This represents interest earnings at the rate of 2.1 percent and 2.3 percent, respectively. Interest earnings were offset by an unrealized loss on investments of $1,805,261 in fiscal year 2016-2017 due to decreases in market values of investments. Interest earnings were increased by unrealized gain on investments of $566,708 in fiscal year 2015-2016 due to increases in market values.

Net investment income for fiscal year 2015-2016 was $2,282,435, resulting in a 3.1 percent rate of return on invested assets. This was $171,154 less than the investment income of $2,453,589 reported for fiscal year 2014-2015, which showed a 3.6 percent rate of return. Interest earnings were $1,715,727 during fiscal year 2015-2016 on an average investment of $74.5 million, whereas $1,587,251 was earned during fiscal year 2014-2015 on an average investment of $67.7 million. This represents interest earnings at the rate of 2.3 percent and 2.4 percent, respectively. Interest earnings were increased by an unrealized gain on investment of $566,708 in fiscal year 2015-2016 due to increases in market values. Interest earnings were increased by unrealized gain on investment of $866,338 in fiscal year 2014-2015 due to an increase 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 $33,588 and decreased by $259,421 at September 30, 2017 and September 30, 2016, respectively. The increase in fiscal year 2016-2017 was the result of the purchase of $732,888 in building improvements, building work in progress, and new equipment and vehicles. These additions to depreciable capital assets were reduced by the sale of $70,043 in excess equipment and vehicles, and a $629,257 net increase in accumulated depreciation. The decrease in fiscal year 2015-2016 was the result of the purchase of $429,172 in building improvements and new equipment and vehicles. These additions to depreciable capital assets were reduced by the sale of $184,154 in excess equipment and vehicles and a $504,439 net increase in accumulated depreciation.

As of September 30, 2017, prepaid tolls and unearned revenue from leases were $1,202,033 and $1,056,166, respectively. The total value of vacation and sick leave balances due employees as of September 30, 2017 was $558,935. Outstanding noncurrent obligations totaled $8,454,859, which includes amounts due to the net pension liability totaling $7,046,740, 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 $88,965, primarily due to additions to prepaid toll account balances. Unearned revenue decreased by $74,970 during fiscal year 2016-2017. Compensated absences increased by $32,417 from fiscal year 2015-2016 to 2016-2017.

As of September 30, 2016, prepaid tolls and unearned revenue from leases were $1,113,068 and $1,131,136, respectively. The total value of vacation and sick leave balances due employees as of September 30, 2016 was $526,518. Outstanding noncurrent obligations totaled $8,378,114, which includes amounts due to the net pension liability totaling $6,901,557, 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 decreased by $26,344 primarily due to reductions in prepaid toll account balances. Unearned revenue decreased by $79,911 during fiscal year 2015-2016. Compensated absences increased by $27,295 from fiscal year 2014-2015 to 2015-2016.

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 2017, 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, 2017, the Authority had no pending or threatening litigation that would have a material effect on its financial statements. During fiscal year 2016-2017, 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, 2017	September 30, 2016
Assets		
Current assets:		
Cash (Note 4)	$ 1,891,182	$ 1,015,656
Investments (Note 4)	5,355,601	5,251,131
Other assets	167,554	123,345
Total current assets	7,414,337	6,390,132
Noncurrent assets:		
Long-term investments (Note 4)	85,780,574	75,914,367
Capital assets (Note 6):		
Capital assets not being depreciated	103,592,158	103,074,854
Other capital assets - Net of depreciation	4,644,345	5,128,061
Total noncurrent assets	194,017,077	184,117,282
Total assets	201,431,414	190,507,414
Deferred Outflows of Resources - Deferred outflows related to pensions (Note 10)	1,201,833	1,052,207
Liabilities		
Current liabilities:		
Accounts payable	1,091,301	372,758
Due to State of Michigan (Note 7)	2,809,392	1,213,598
Prepaid tolls (Note 8)	1,152,033	1,056,796
Unearned revenue (Note 8)	86,616	85,986
Compensated absences (Note 8)	170,366	151,383
Total current liabilities	5,309,708	2,880,521
Noncurrent liabilities:		
Prepaid tolls (Note 8)	50,000	56,272
Unearned revenue (Note 8)	969,550	1,045,150
Net pension liability (Note 10)	7,046,740	6,901,557
Compensated absences (Note 8)	388,569	375,135
Total noncurrent liabilities	8,454,859	8,378,114
Total liabilities	13,764,567	11,258,635
Deferred Inflows of Resources - Deferred inflows related to pensions (Note 10)	476	263
Net Position		
Net investment in capital assets	108,236,503	108,202,915
Unrestricted (Note 1)	80,631,701	72,097,808
Total net position	**$ 188,868,204**	**$ 180,300,723**

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

Mackinac Bridge Authority

Statement of Revenue, Expenses, and Changes in Net Position

	Year Ended September 30	
	2017	2016
Operating Revenue - Tolls, fees, and leases	$ 23,794,217	$ 22,725,534
Operating Expenses		
Bridge operations	2,658,824	2,499,886
Maintenance	2,391,998	2,161,081
Administration	682,165	619,744
Finance	656,797	652,650
General operations	362,218	400,627
Preservation costs	8,049,054	3,894,976
Total operating expenses	14,801,056	10,228,964
Operating Income	8,993,161	12,496,570
Nonoperating Revenue (Expenses)		
Annual Bridge Walk donations	97,781	-
Payments on advance to the State of Michigan (Note 3)	(500,000)	(500,000)
Investment (loss) income	(23,461)	2,282,435
Total nonoperating (expenses) revenue	(425,680)	1,782,435
Change in Net Position	8,567,481	14,279,005
Net Position - Beginning of year	180,300,723	166,021,718
Net Position - End of year	**$ 188,868,204**	**$ 180,300,723**

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

Statement of Cash Flows

	Year Ended September 30	
	2017	2016
Cash Flows from Operating Activities		
Tolls and fees	$ 23,900,499	$ 22,585,974
Payments to suppliers	(1,799,840)	(2,251,245)
Payments to employees	(6,291,073)	(7,489,241)
Net cash provided by operating activities	15,809,586	12,845,488
Cash Flows from Capital and Related Financing Activities		
Proceeds from sales of capital assets	5,494	33,305
Purchase of capital assets	(732,888)	(429,172)
Payments of preservation costs	(3,712,528)	(3,575,441)
Payments on advance to the State of Michigan	(500,000)	(500,000)
Net cash used in capital and related financing activities	(4,939,922)	(4,471,308)
Cash Flows from Investing Activities		
Interest on investments	1,693,593	1,753,884
Purchases of investments	(13,546,953)	(13,733,538)
Proceeds from sale and maturities of investments	1,859,222	2,985,093
Net cash used in investing activities	(9,994,138)	(8,994,561)
Net Increase (Decrease) in Cash	875,526	(620,381)
Cash - Beginning of year	1,015,656	1,636,037
Cash - End of year	**$ 1,891,182**	**$ 1,015,656**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 8,993,161	$ 12,496,570
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	699,300	688,593
Preservation costs reported as cash flow from capital activities	3,712,528	3,575,441
Gain on sale of capital asset	(5,494)	(33,305)
Annual Bridge Walk donations	97,781	-
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Other assets	(44,209)	(22,402)
Change in net pension liability and associated deferrals	(4,230)	(135,861)
Accounts payable	718,543	(633,550)
Due to State of Michigan	1,595,794	(3,011,038)
Prepaid tolls	88,965	(26,344)
Unearned revenue	(74,970)	(79,911)
Compensated absences	32,417	27,295
Net cash provided by operating activities	**$ 15,809,586**	**$ 12,845,488**

During 2017 and 2016, there were no noncash investing, capital, and financing activities.

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

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 revenue 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)

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

	2017	2016
Designated for repairs, maintenance, and preservation of infrastructure	$ 79,131,701	$ 70,597,808
Designated for self insurance	1,000,000	1,000,000
Undesignated	500,000	500,000
Total unrestricted net position	$ 80,631,701	$ 72,097,808

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. 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 2017 and $500,000 in 2016 to the State of Michigan toward this advance. The total of these advances repaid as of September 30, 2017 is $14,806,172. 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, 2017 and 2016 were as follows:

	2017	2016
Deposits	$ 1,722,363	$ 906,135
Investments	91,136,175	81,165,498
Cash on hand	168,819	109,521
Total	$ 93,027,357	$ 82,181,154

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, prime commercial paper, 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, 2017 and 2016, the Authority had $1,790,137 and $1,056,081, 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, 2017 and 2016. 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:

2017	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Money market	$ 8,911,016	$ -	$ -	$ -	$ 8,911,016
Government securities	26,912,364	5,355,601	8,946,458	11,017,739	1,592,566
Mortgage-backed securities	34,235,866	-	-	1,493,686	32,742,180
Corporate bonds and notes	21,076,929	-	6,134,377	5,350,727	9,591,825
Total	$ 91,136,175	$ 5,355,601	$ 15,080,835	$ 17,862,152	$ 52,837,587

Note 4 - Deposits and Investments (Continued)

2016	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Money market	$ 7,338,838	$ -	$ -	$ -	$ 7,338,838
Government securities	34,598,493	2,011,793	16,519,912	4,982,744	11,084,044
Mortgage-backed securities	12,161,709	-	-	-	12,161,709
Corporate bonds and notes	23,827,120	-	6,611,651	6,938,944	10,276,525
Commercial paper	3,239,338	3,239,338	-	-	-
Total	$ 81,165,498	$ 5,251,131	$ 23,131,563	$ 11,921,688	$ 40,861,116

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
2017:			
Money market	$ 8,911,016	Not rated	N/A
Government securities	26,912,364	AA+	Standard & Poor's
Mortgage-backed securities	34,235,866	AA+	Standard & Poor's
Corporate bonds and notes	21,076,929	AA+	Standard & Poor's
2016:			
Commercial paper	$ 3,239,338	Not rated	N/A
Money market	7,338,838	Not rated	N/A
Government securities	34,598,493	AA+	Standard & Poor's
Mortgage-backed securities	12,161,709	AA+	Standard & Poor's
Corporate bonds and notes	23,827,120	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 exceptions:

U.S. Treasury	100% of total investments
Each federal agency	50% of total investments
Each repurchased agreement counterparty	25% of total investments
Each money market mutual fund	50% of total investments

Note 4 - Deposits and Investments (Continued)

The Authority had investments in the following companies that exceeded 5 percent of the Authority's total investments at September 30, 2017 and 2016:

2017

Name of Issuer	Amount	Percentage of Investment
GNMA (Ginnie Mae)	$ 33,458,555	36.9 %
Small Business Administration	8,443,675	9.3
U.S. Treasury note	13,805,430	15.2

2016

Name of Issuer	Amount	Percentage of Investment
GNMA (Ginnie Mae)	$ 22,408,161	27.6 %
Hashemite Kingdom of Jordan	4,096,008	5.0
Private Export Funding	4,122,943	5.1
Small Business Administration	9,864,434	12.2
U.S. Treasury note	8,333,322	10.3

Note 5 - Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 5 - Fair Value Measurement (Continued)

The Authority has the following recurring fair value measurements as of September 30, 2017 and 2016:

Assets Measured at Fair Value on a Recurring Basis at September 30, 2017

		Fair Value Measurement Using		
	Balance at September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market	$ 8,911,016	$ 8,911,016	$ -	$ -
Government securities	26,569,912	13,805,430	12,764,482	-
Mortgage-backed securities	34,235,866	-	34,235,866	-
Corporate bonds and notes	21,076,929	-	21,076,929	-
Total investments by fair value level	$ 90,793,723	$ 22,716,446	$ 68,077,277	$ -

Assets Measured at Fair Value on a Recurring Basis at September 30, 2016

		Fair Value Measurement Using		
	Balance at September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Commercial paper	$ 2,985,093	$ -	$ 2,985,093	$ -
Money market	7,338,838	7,338,838	-	-
Government securities	34,598,493	8,333,322	26,265,171	-
Mortgage-backed securities	12,161,709	-	12,161,709	-
Corporate bonds and notes	23,827,120	-	23,827,120	-
Total investments by fair value level	$ 80,911,253	$ 15,672,160	$ 65,239,093	$ -

The tables above do not include accrued income of $342,452 and $254,245 as of September 30, 2017 and 2016, respectively, which is included in the investment balances on the statement of net position.

Money market and government securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of commercial paper, government securities, mortgage-backed securities, and corporate bonds and notes was determined primarily based on Level 2 inputs. The Authority estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Note 6 - Capital Assets

Capital asset activity for the year ended September 30, 2017 was as follows:

	Balance October 1, 2016	Additions	Disposals	Balance September 30, 2017
Capital assets not being depreciated:				
Land	$ 125,000	$ -	$ -	$ 125,000
Infrastructure - Bridge	102,949,854	-	-	102,949,854
Construction in progress	-	517,304	-	517,304
Subtotal	103,074,854	517,304	-	103,592,158
Capital assets being depreciated:				
Buildings	5,260,418	25,268	-	5,285,686
Equipment and vehicles	5,512,015	190,316	(70,043)	5,632,288
Subtotal	10,772,433	215,584	(70,043)	10,917,974
Accumulated depreciation:				
Buildings	2,743,817	98,878	-	2,842,695
Equipment and vehicles	2,900,555	600,422	(70,043)	3,430,934
Subtotal	5,644,372	699,300	(70,043)	6,273,629
Net capital assets being depreciated	5,128,061	(483,716)	-	4,644,345
Net capital assets	$ 108,202,915	$ 33,588	$ -	$ 108,236,503

Depreciation expense was charged to functions as follows for the year ended September 30, 2017:

Bridge operations	$ 313,670
Maintenance	114,903
General operations	99,069
Preservation costs	171,658
Total depreciation expense	$ 699,300

Note 6 - Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2016 was as follows:

	Balance October 1, 2015	Additions	Disposals	Balance September 30, 2016
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	59,782	-	5,260,418
Equipment and vehicles	5,326,779	369,390	(184,154)	5,512,015
Subtotal	10,527,415	429,172	(184,154)	10,772,433
Accumulated depreciation:				
Buildings	2,513,209	230,608	-	2,743,817
Equipment and vehicles	2,626,724	457,985	(184,154)	2,900,555
Subtotal	5,139,933	688,593	(184,154)	5,644,372
Net capital assets being depreciated	5,387,482	(259,421)	-	5,128,061
Net capital assets	$ 108,462,336	$ (259,421)	$ -	$ 108,202,915

Depreciation expense was charged to functions as follows for the year ended September 30, 2016:

Bridge operations	$ 313,669
Maintenance	114,498
General operations	99,054
Preservation costs	161,372
Total depreciation expense	$ 688,593

Note 7 - 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:

	2017	2016
Michigan Department of Military and Veterans Affairs	$ -	$ 85,082
Michigan Department of Labor and Economic Growth	760	400
Michigan Department of Transportation	2,708,632	1,128,116
Michigan State Police	100,000	-
Total	$ 2,809,392	$ 1,213,598

Note 8 - Long-term Obligations

Long-term liability activity for the years ended September 30, 2017 and 2016 was as follows:

2017	Balance October 1, 2016	Additions	Reductions	Balance September 30, 2017	Due Within One Year
Compensated absences	$ 526,518	$ 32,417	$ -	$ 558,935	$ 170,366
Prepaid tolls	1,113,068	88,965	-	1,202,033	1,152,033
Unearned revenue	1,131,136	630	(75,600)	1,056,166	86,616
Total	$ 2,770,722	$ 122,012	$ (75,600)	$ 2,817,134	$ 1,409,015

2016	Balance October 1, 2015	Additions	Reductions	Balance September 30, 2016	Due Within One Year
Compensated absences	$ 499,223	$ 28,662	$ (1,367)	$ 526,518	$ 151,383
Prepaid tolls	1,139,412	-	(26,344)	1,113,068	1,056,796
Unearned revenue	1,211,047	272	(80,183)	1,131,136	85,986
Total	$ 2,849,682	$ 28,934	$ (107,894)	$ 2,770,722	$ 1,294,165

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 9 - 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 9 - 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:

	2017	2016
Estimated liability - Beginning of year	$ 57,549	$ 13,991
Estimated incurred claims	253,491	143,226
Claim payments	(135,516)	(99,668)
Estimated liability - End of year	$ 175,524	$ 57,549

Note 10 - Pension Plan and Other Employee Benefits

Plan Description - The Michigan State Employees' Retirement System (the "System" or SERS) is a single-employer, statewide, 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 supplemental 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.

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, nonduty disability, and survivor benefits.

Note 10 - Pension Plan and Other Employee Benefits (Continued)

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 on 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.
- Option 2: DB.30 - Members voluntarily elected to remain in the DB plan for future service 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 on April 1, 2012, and continues until they switch to the DC plan or terminate employment, whichever comes first.
- 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 on 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.

Note 10 - Pension Plan and Other Employee Benefits (Continued)

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 wherein 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.

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
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.

Note 10 - Pension Plan and Other Employee Benefits (Continued)

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
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 a reduction in force lay-offs by reason of deinstitutionalization.

Nonduty 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 nonduty disability pension. The nonduty disability benefit is computed in the same manner as an age and service allowance based upon service and salary at the time of disability.

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 members' survivors. The new minimum duty-related death benefit has been increased to $6,000.

Note 10 - Pension Plan and Other Employee Benefits (Continued)

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 is as 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.

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.

Note 10 - Pension Plan and Other Employee Benefits (Continued)

Postretirement Adjustments - One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977, and 1987. Beginning on 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.

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 2017, the Authority's contribution rate was 25.5 percent of the defined benefit employee wages and 22.2 percent of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ended September 30, 2017 was $965,299.

For fiscal year 2016, the Authority's contribution rate was 26.05 of the defined benefit employee wages and 22.84 percent of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ended September 30, 2016 was $951,610.

Note 10 - Pension Plan and Other Employee Benefits (Continued)

Net Pension Liability, Deferrals, and Pension Expense

At September 30, 2017, the Authority reported a liability of $7,046,740 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of as of September 30, 2015, and rolled forward using generally accepted actuarial procedures. The Authority's proportion of the net pension liability was based on the Authority's required pension contributions received by SERS during the measurement period from October 1, 2015 through September 30, 2016, relative to the total required employer contributions from all SERS' participating employers. At September 30, 2016 (measurement date), the Authority's proportion was 0.13 percent.

At September 30, 2016, the Authority reported a liability of $6,901,557 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of as of September 30, 2014, and rolled forward using generally accepted actuarial procedures. The Authority's proportion of the net pension liability was based on the Authority's required pension contributions received by SERS during the measurement period from October 1, 2014 through September 30, 2015, relative to the total required employer contributions from all SERS' participating employers. At September 30, 2015 (measurement date), the Authority's proportion was 0.13 percent.

For the years ended September 30, 2017 and 2016, the Authority recognized pension expense of $961,069 and $815,749, respectively.

At September 30, 2017, 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 actual contributions and proportionate share of contributions	$ 77,376	$ 476
Differences between expected and actual experience	843	-
Net difference between projected and actual earnings on pension plan investments	158,315	-
Authority's contributions to the plan subsequent to the measurement date	965,299	-
Total	$ 1,201,833	$ 476

Note 10 - Pension Plan and Other Employee Benefits (Continued)

At September 30, 2016, 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 actual contributions and proportionate share of contributions	$ 20,281	$ 263
Differences between expected and actual experience	19,470	-
Net difference between projected and actual earnings on pension plan investments	60,846	-
Authority's contributions to the plan subsequent to the measurement date	951,610	-
Total	$ 1,052,207	$ 263

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, 2018. 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 September 30	Pension Expense Amount
2018	$ 58,553
2019	(19,190)
2020	181,790
2021	14,905

Note 10 - Pension Plan and Other Employee Benefits (Continued)

Actuarial Assumptions - The Authority's net pension liability for the year ended September 30, 2017 was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, and rolled forward using generally accepted actuarial procedures. The Authority's net pension liability for the year ended September 30, 2016 was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, and rolled forward using generally accepted actuarial procedures. The total pension liability for both years 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 noncompounded with maximum annual increases of $300 for those eligible

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

Discount Rate - A discount rate of 8.0 percent was used to measure the total pension liability as of September 30, 2016 and 2015. 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.

Note 10 - Pension Plan and Other Employee Benefits (Continued)

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, 2016 and 2015 are summarized in the following table:

Asset Allocation at September 30, 2016 and 2015

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return*
Domestic equity pools	28.0 %	5.9 %
International equity pools	16.0	7.2
Private equity pools	18.0	9.2
Real estate and infrastructure pools	10.0	4.3
Fixed-income pools	10.5	0.9
Absolute return pools	15.5	6.0
Short-term investment pools	2.0	-

* Rate of return does not include 2.1 percent inflation.

Pension Liability Sensitivity - 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 discount rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
September 30, 2017 net pension liability	$ 9,047,859	$ 7,046,740	$ 5,319,729
September 30, 2016 net pension liability	8,819,657	6,901,557	5,248,813

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.

Note 10 - Pension Plan and Other Employee Benefits (Continued)

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 $256,000 and $200,000 for the years ended September 30, 2017 and 2016, respectively, and are recorded in salaries and benefits expense.

Postemployment Benefits - The Authority participates in the State of Michigan's single-employer postemployment benefit plan. State statutes provide retired employees with other postemployment benefits, such as health, dental, vision, and life insurance coverage based on vesting and other requirements. The Authority was required to contribute 21.05 percent of payroll for the employer cost of other postemployment benefits for the year ended September 30, 2017 and 20.63 percent of payroll for the employer cost of other postemployment benefits for the year ended September 30, 2016. The State pays 80 percent of the cost of health insurance for retired employees that were hired on or before March 30, 1997. For retired employees hired after March 30, 1997 and before January 1, 2012, the State pays between 30 and 80 percent of the cost of health insurance depending on the years of service. Employees hired on or after January 1, 2012 will not be eligible for any retiree health insurance coverage, but will become participants in the Personal Healthcare Fund wherein they will contribute up to 2 percent of their compensation into a 401(k) or 457 account, earning a matching 2 percent employer contribution. Also, the employee will receive a credit into a health reimbursement at termination of employment if he or she has at least 10 years of service at termination. 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.

Note 11 - Commitments

As of September 30, 2017, the Authority has outstanding commitments on contracts to complete painting, bridge resurfacing, cleaning and maintenance of the bridge, and consulting projects in the amount of approximately $4,545,000.

The Authority has committed to contributing $75,000 during fiscal year 2018 toward a marketing campaign for Upper Peninsula tourism.

Note 12 - Upcoming Accounting Pronouncements

In June 2015, the Governmental Accounting Standards Board issued GASB 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.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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, 2021.

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 2017, 2016, 2015, 2014, and 2013 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.

	2017	2016	2015	2014	2013
Needed	$ 7,848,810	$ 5,166,233	$ 12,696,194	$ 10,281,889	$ 16,369,375
Actual	8,049,054	3,894,976	14,636,879	10,255,894	15,024,874

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
Fiscal Year Ended September 30

	2017	2016	2015
Authority's proportion of the net pension liability	0.13 %	0.13 %	0.12 %
Authority's proportionate share of the net pension liability	$ 7,046,740	$ 6,901,557	$ 6,389,681
Authority's eligible compensation	$ 4,285,616	$ 4,110,767	$ 3,957,563
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	164.4 %	167.9 %	161.5 %
Plan fiduciary net position as a percentage of total pension liability	67.48 %	66.11 %	68.10 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30, 2016, September 30, 2015, and September 30, 2014.

Required Supplemental Information
Schedule of the Authority's Contributions
State Employees' Retirement System
Fiscal Year Ended September 30

	2017	2016	2015
Statutorily required contribution	$ 965,299	$ 951,610	$ 968,606
Contributions in relation to the statutorily required contribution	965,299	951,610	968,606
Contribution deficiency	$ -	$ -	$ -
Authority's eligible compensation	$ 4,285,616	$ 4,110,767	$ 3,957,563
Contributions as a percentage of covered employee payroll	22.5 %	23.1 %	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 2017:

Actuarial cost method	Entry age, normal
Amortization method	Level dollar, closed
Remaining amortization period	21 years
Asset valuation method	Five-year smoothed fair value
Inflation	2.50 percent
Salary increases	3.5 percent wage inflation
Investment rate of return	8.00 percent 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 2015 using projection scale BB. For retirees, 100 percent of the table rates was used. For active members, 50 percent of the table rates was used for males and females.

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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 September 30, 2017 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 4, 2017.

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 opinion 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 4, 2017