Mackinac Bridge Authority

(a discretely presented component unit of the State of Michigan)

Financial Report
with Supplemental Information
September 30, 2018

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 financial statements of Mackinac Bridge Authority (the "Authority"), a component unit of the State of Michigan, as of and for the years ended September 30, 2018 and 2017 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Mackinac Bridge Authority as of September 30, 2018 and 2017 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.

Emphasis of Matter

As discussed in Note 15, during the year ended September 30, 2018, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which established accounting and financial reporting standards for defined benefit OPEB plans provided to employees of governmental employers. Our opinion is not modified with respect to this matter.

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

Other Matters

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 12, 2018 on our consideration of 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 Mackinac Bridge Authority's internal control over financial reporting and compliance.

Plante & Moran, PLLC

December 12, 2018

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, 2018. 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 $8,170,984, or 4.1 percent, over the course of fiscal year 2017-2018 operations. Total assets increased by $10,924,000, or 5.7 percent, over the course of fiscal year 2016-2017 operations.

- Total liabilities increased by $14,612,432, or 106.2 percent, during the current fiscal year, primarily due to the implementation of GASB 75. Total liabilities increased by $2,505,932, or 22.3 percent, from fiscal year 2015-2016 to fiscal year 2016-2017.

- Total net position decreased by $6,423,284, or 3.4 percent, consisting of a $6,285,347 decrease in unrestricted assets designated for future repair and maintenance of the Mackinac Bridge, and a $137,937 decrease in invested capital assets.

- Traffic crossing the Mackinac Bridge throughout the fiscal year totaled 4,177,251 vehicles, which was 24,221, or 0.6 percent, more vehicles than the previous fiscal year. Traffic increased by 102,601, or 2.5 percent, from fiscal year 2015-2016 to fiscal year 2016-2017.

- Gross toll revenue increased by $115,102, or 0.5 percent, due to a 0.6 percent increase in traffic crossing the Mackinac Bridge over the fiscal year. Toll revenue increased by $951,105, or 4.3 percent, from fiscal year 2015-2016 to fiscal year 2016-2017 due to a 2.5 percent increase in traffic crossing the Mackinac Bridge over the fiscal year.

- Investment income decreased by $758,253 due to an increase in interest earnings of $235,219 offset by market values decreasing in the amount of $993,472. Investment income decreased from fiscal year 2015-2016 to fiscal year 2016-2017 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.

- Total operating expenses increased from fiscal year 2016-2017 to fiscal year 2017-2018 by $1,144,693, or 7.7 percent, due primarily to increased labor and toll collection costs and the timing of other infrastructure preservation contracts.

- Expenses to operate and manage the bridge increased from fiscal year 2016-2017 to fiscal year 2017-2018 by $765,099, or 11.3 percent, due to increased toll collection and labor costs.

- Expenses to preserve and maintain the Mackinac Bridge and related infrastructure totaled $8,428,648 in the current fiscal year, which was $379,594 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, 2018 and 2017, and how they have changed since September 30, 2017 and 2016, respectively. Net position, the difference between the Authority's assets, liabilities, and changes in deferred inflows and outflows of resources, 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 Bridge.

Also included is a statement of cash flows, which shows how cash was received and used throughout fiscal year 2017-2018 and fiscal year 2016-2017 to conduct the Authority's operations.

Financial Analysis

Net Position - The Authority's net position decreased by $6,423,284, or 3.4 percent, from fiscal year 2016-2017 to fiscal year 2017-2018, going from $188,868,204 at the beginning of the year to $182,444,920 at fiscal year end. This decrease was the result of a 4.1 percent increase in total assets and a 106.2 percent increase in total liabilities. 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 (see statement of net position).

The Authority's September 30, 2018 net position reflects a $12.6 million negative entry in order to recognize the Authority's portion of the net healthcare and life insurance other postemployment benefits (OPEB) liability as a result of implementing GASB 75. This action is further discussed in Note 15.

Total assets increased from fiscal year 2016-2017 to fiscal year 2017-2018 by $8,170,984, composed of a 14.2 percent increase in current assets, an 8.5 percent increase in noncurrent investments, and a 0.1 percent decrease in capital assets. Current assets consist primarily of cash and current investments. Current assets increased throughout the year by $1,053,730, due to an $81,565 decrease in cash, a $956,781 increase in current investments, and a $178,514 increase in other current assets. Noncurrent investments increased by $7,255,191, primarily due to the investment of $7,965,063 in operating income, the $2,017,019 of investment earnings partially offset by the $2,798,733 in unrealized investment losses. Capital assets consist of land; bridge, road, and plaza area infrastructure; and depreciable buildings, vehicles, and equipment. Capital assets decreased by $137,937 due to depreciation exceeding capital asset investment.

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 liabilities increased by $14,612,432, or 106.2 percent, from fiscal year 2016-2017 to fiscal year 2017-2018 primarily due to the implementation of GASB 75. 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.

Statement of Net Position

	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016
Assets			
Current	$ 8,468,067	$ 7,414,337	$ 6,390,132
Noncurrent:			
Long-term investments	93,035,765	85,780,574	75,914,367
Capital assets	108,098,566	108,236,503	108,202,915
Total assets	209,602,398	201,431,414	190,507,414
Deferred Outflows	1,993,406	1,201,833	1,052,207
Liabilities			
Current	6,870,101	5,309,708	2,880,521
Noncurrent	21,506,898	8,454,859	8,378,114
Total liabilities	28,376,999	13,764,567	11,258,635
Deferred Inflows	773,885	476	263
Net Position			
Invested in capital assets	108,098,566	108,236,503	108,202,915
Unrestricted	74,346,354	80,631,701	72,097,808
Total net position	**$ 182,444,920**	**$ 188,868,204**	**$ 180,300,723**

Change in Net Position - Net position changed throughout the year due to variances in revenue and expenses and changes in capital assets. Net position for fiscal year 2017-2018 decreased by $6,423,284 while net position for fiscal year 2016-2017 increased by $8,567,481 (see statement of changes in net position).

Statement of Changes in Net Position

	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016
Operating Revenue - Tolls, fees, and leases	$ 23,910,812	$ 23,794,217	$ 22,725,534
Operating Expenses			
Operations	7,517,101	6,752,002	6,333,988
Infrastructure preservation	8,428,648	8,049,054	3,894,976
Total expenses	15,945,749	14,801,056	10,228,964
Nonoperating Revenue (Expense)			
Annual Bridge Walk donations	-	97,781	-
Payments on advance to the State of Michigan	(1,000,000)	(500,000)	(500,000)
Investment (loss) income	(781,714)	(23,461)	2,282,435
Changes in Net Position	**$ 6,183,349**	**$ 8,567,481**	**$ 14,279,005**
Cumulative Effect of Change in Accounting	**$ (12,606,633)**	**$ -**	**$ -**
Adjusted Changes in Net Position	**$ (6,423,284)**	**$ 8,567,481**	**$ 14,279,005**

Operating revenue for fiscal year 2017-2018 of $23,910,812, consisting of vehicle tolls, miscellaneous fees, and lease income, increased by 0.5 percent from the previous year. Net toll revenue went from $23,090,839 for fiscal year 2016-2017 to $23,204,423 for fiscal year 2017-2018. Expenses to operate, manage, and preserve the bridge and associated infrastructure during fiscal year 2017-2018 went from $14,801,056 for fiscal year 2016-2017 to $15,945,749 for fiscal year 2017-2018 for an increase of 7.7 percent. Bridge operations and management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, increased by 11.3 percent for fiscal year 2017-2018 primarily due to increases in labor costs and consulting services. Infrastructure preservation expenses for fiscal year 2017-2018, totaling $8,428,648, were $379,594 more than the $8,049,054 expensed during fiscal year 2016-2017. The reasons for this difference in fiscal year preservation expenses were an increase in required painting activity in fiscal year 2017-2018 and the timing of other preservation projects identified in the Authority's 20-year business plan.

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.

Net investment income for fiscal year 2017-2018 was a loss of $781,714, resulting in a negative 0.8 percent rate of return on invested assets. This was $758,253 more than the investment loss of $23,461 reported for fiscal year 2016-2017, which showed a negative 0.1 percent rate of return. Interest earnings were $2,017,019 during fiscal year 2017-2018 on an average investment of $95.2 million, whereas $1,781,800 was earned during fiscal year 2016-2017 on an average investment of $86.2 million. This represents interest earnings at the rate of 2.1 percent and 2.1 percent, respectively. Interest earnings were offset by an unrealized loss on investments of $2,798,733 in fiscal year 2017-2018 due to decreases in market values of investments. 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.

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.

Capital Asset and Debt Administration

Capital assets, consisting of the bridge and related infrastructure, land, buildings, and capital equipment, net of depreciation, decreased by $137,937 and increased by $33,588 at September 30, 2018 and September 30, 2017, respectively. The decrease in fiscal year 2017-2018 was the result of $582,558 in building improvements, and new equipment and vehicles. These additions to depreciable capital assets were reduced by the sale of $94,940 in excess equipment and vehicles, and a $625,555 net increase in accumulated depreciation. 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.

As of September 30, 2018, prepaid tolls and unearned revenue from leases were $1,184,060 and $1,105,503, respectively. The total value of vacation and sick leave balances due to employees as of September 30, 2018 was $517,723. Outstanding noncurrent obligations totaled $21,506,898, which includes amounts due to the net pension and OPEB liability of $7,080,730 and $13,299,672, respectively, 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 $17,973, primarily due to the removal of the prepaid token balance as the Authority will no longer be accepting tokens. Unearned revenue increased by $49,337 during fiscal year 2017-2018. Compensated absences decreased by $41,212 from fiscal year 2016-2017 to 2017-2018.

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 to 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.

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 2018, the Mackinac Bridge's condition was rated "good to fair" 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, 2018, the Authority had no pending or threatening litigation that would have a material effect on its financial statements. During fiscal year 2017-2018, 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, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash (Note 5)	$ 1,809,617	$ 1,891,182
Investments (Note 5)	6,312,382	5,355,601
Other assets	346,068	167,554
Total current assets	8,468,067	7,414,337
Noncurrent assets:		
Long-term investments (Note 5)	93,035,765	85,780,574
Capital assets: (Note 7)		
Capital assets not being depreciated	103,074,854	103,592,158
Other capital assets - Net of depreciation	5,023,712	4,644,345
Total noncurrent assets	201,134,331	194,017,077
Total assets	209,602,398	201,431,414
Deferred Outflows of Resources		
Deferred outflows related to pensions (Note 11)	957,020	1,201,833
Deferred OPEB costs (Note 12)	1,036,386	-
Total deferred outflows of resources	1,993,406	1,201,833
Liabilities		
Current liabilities:		
Accounts payable	1,057,422	1,091,301
Due to State of Michigan (Note 8)	4,131,889	2,809,392
Unearned revenue (Note 9)	217,578	86,616
Prepaid tolls (Note 9)	1,184,060	1,152,033
Compensated absences (Note 9)	279,152	170,366
Total current liabilities	6,870,101	5,309,708
Noncurrent liabilities:		
Prepaid tolls (Note 9)	-	50,000
Unearned revenue (Note 9)	887,925	969,550
Net pension liability (Note 11)	7,080,730	7,046,740
Net OPEB liability (Note 12)	13,299,672	-
Compensated absences (Note 9)	238,571	388,569
Total noncurrent liabilities	21,506,898	8,454,859
Total liabilities	28,376,999	13,764,567
Deferred Inflows of Resources		
Deferred inflows related to pensions (Note 11)	424,864	476
Deferred inflows related to OPEB (Note 12)	349,021	-
Total deferred inflows of resources	773,885	476
Net Position		
Net investment in capital assets	108,098,566	108,236,503
Unrestricted (Note 13)	74,346,354	80,631,701
Total net position	**$ 182,444,920**	**$ 188,868,204**

See notes to financial statements.

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2018 and 2017

	2018	2017
Operating Revenue - Tolls, fees, and leases	$ 23,910,812	$ 23,794,217
Operating Expenses		
Bridge operations	3,316,230	2,658,824
Maintenance	2,452,391	2,391,998
Administration	598,206	682,165
Finance	742,824	656,797
General operations	407,450	362,218
Preservation costs	8,428,648	8,049,054
Total operating expenses	15,945,749	14,801,056
Operating Income	7,965,063	8,993,161
Nonoperating (Expense) Revenue		
Investment loss	(781,714)	(23,461)
Payments on advance to the State of Michigan	(1,000,000)	(500,000)
Annual Bridge Walk donations	-	97,781
Total nonoperating expense	(1,781,714)	(425,680)
Change in Net Position	6,183,349	8,567,481
Net Position - Beginning of year, as previously reported	188,868,204	180,300,723
Cumulative Effect of Change in Accounting (Note 15)	(12,606,633)	-
Net Position - Beginning of year	176,261,571	180,300,723
Net Position - End of year	**$ 182,444,920**	**$ 188,868,204**

Statement of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Tolls and fees	$ 23,843,448	$ 23,900,499
Payments to suppliers	(2,177,809)	(1,799,840)
Payments to employees	(6,547,047)	(6,291,073)
Net cash provided by operating activities	15,118,592	15,809,586
Cash Flows from Capital and Related Financing Activities		
Proceeds from sales of capital assets	36,000	5,494
Purchase of capital assets	(582,557)	(732,888)
Payments of preservations costs	(4,723,925)	(3,712,528)
Payments on advance to the State of Michigan	(1,000,000)	(500,000)
Net cash used in capital and related financing activities	(6,270,482)	(4,939,922)
Cash Flows from Investing Activities		
Interest on investments	2,063,709	1,693,593
Purchases of investments	(11,317,807)	(13,546,953)
Proceeds from sale and maturities of investments	324,423	1,859,222
Net cash used in investing activities	(8,929,675)	(9,994,138)
Net (Decrease) Increase in Cash	(81,565)	875,526
Cash - Beginning of year	1,891,182	1,015,656
Cash - End of year	**$ 1,809,617**	**$ 1,891,182**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 7,965,063	$ 8,993,161
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	719,211	699,300
Preservation costs reported as cash flow from capital activities	4,723,925	3,712,528
Gain on sale of capital asset	(36,000)	(5,494)
Annual Bridge Walk donations	-	97,781
Changes in assets, liabilities, and deferred inflows:		
Other assets	(178,514)	(44,209)
Change in net pension and OPEB liability and associated deferrals	708,865	(4,230)
Accounts payable	(33,879)	718,543
Due to State of Michigan	1,322,497	1,595,794
Prepaid tolls	17,973	88,965
Unearned revenue	(49,337)	(74,970)
Compensated absences	(41,212)	32,417
Net cash provided by operating activities	**$ 15,118,592**	**$ 15,809,586**

During 2018 and 2017, there were no noncash investing, capital, and financing activities.

Note 1 - 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.

Note 2 - Significant Accounting Policies

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:

	Depreciable Life - Years
Buildings	39
Equipment and vehicles	3 - 7

Prepaid Tolls

Individuals and businesses have the ability to prepay accounts, which allows for multiple trips across the Mackinac Bridge. These accounts can subsequently be reloaded at any time. These prepaid tolls are accrued at the time the accounts are purchased or reloaded and are recognized as revenue each time the account is used to cross the bridge.

Note 2 - 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 two items that qualify for reporting in this category, which are the deferred outflow of resources related to the pension and deferred outflow of resources related to other postemployment benefit costs.

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 two items that qualify for reporting in this category, which are the deferred inflow of resources related to the pension and deferred inflow of resources related to other postemployment benefit costs.

Pensions and Postemployment Benefits Other than Pensions (OPEB)

For the purpose of measuring the net pension liability and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position and additions to/deduction from fiduciary net position of the State Employees’ Retirement System (SERS) or the postemployment life insurance benefits plan (the "Plan") have been determined on the same basis as they are reported by SERS or the Plan. 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 generally accepted accounting principles 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 reporting period. Actual results could differ from those estimates.

Unrestricted Net Position

Net position of the Authority is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation. Unrestricted net position is the net position not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of management or the board of trustees (the "Board") or may otherwise be limited by contractual agreements with outside parties.

Note 3 - 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 4 - 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 $1,000,000 in 2018 and $500,000 in 2017 to the State of Michigan toward this advance. The total of these advances repaid as of September 30, 2018 is $15,806,172. 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 5 - Deposits and Investments

Cash and investments held by the Authority at September 30, 2018 and 2017 were as follows:

	2018	2017
Deposits	$ 1,502,675	$ 1,722,363
Investments	99,348,147	91,136,175
Cash on hand	306,942	168,819
Total	$ 101,157,764	$ 93,027,357

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.

Note 5 - Deposits and Investments (Continued)

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, 2018 and 2017, the Authority had $1,902,545 and $1,790,137, 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, 2018 and 2017. 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:

	2018				
Investment	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
Money market	$ 9,622,010	$ -	$ -	$ -	$ 9,622,010
Government securities	23,946,694	5,324,017	12,276,455	3,839,541	2,506,681
Mortgage-backed securities	50,185,657	-	272,762	831,691	49,081,204
Corporate bonds and notes	15,593,786	988,365	5,817,391	516,803	8,271,227
Total	$ 99,348,147	$ 6,312,382	$ 18,366,608	$ 5,188,035	$ 69,481,122

	2017				
Investment	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 5 - 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:

	2018		
Investment	Fair Value	Rating	Rating Organization
Money market	$ 9,622,010	Not rated	N/A
Government securities	23,946,694	AA+	Standard & Poor's
Mortgage-backed securities	50,185,657	AA+	Standard & Poor's
Corporate bonds and notes	15,593,786	AA+	Standard & Poor's

	2017		
Investment	Fair Value	Rating	Rating Organization
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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment with a single issuer. The Authority has a policy limiting the dollar value of investments with a single 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

The Authority had investments in the following companies that exceeded 5 percent of the Authority's total investments at September 30, 2018 and 2017:

	2018	
Name of Issuer	Amount	Percentage of Investment
GNMA (Ginnie Mae)	$ 49,501,188	55.4%
U.S. Treasury Note	13,223,291	14.8
Small Business Administration	7,017,792	7.9

	2017	
Name of Issuer	Amount	Percentage of Investment
GNMA (Ginnie Mae)	$ 33,458,555	36.9%
U.S. Treasury Note	13,805,430	15.2
Small Business Administration	8,443,675	9.3

Note 6 - Fair Value Measurements

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 net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances whereby inputs used to measure fair value fall into different levels in the 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.

The Authority has the following recurring fair value measurements as of September 30, 2018:

	Assets Measured at Fair Value on a Recurring Basis			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2018
Money market	$ 9,622,010	$ -	$ -	$ 9,622,010
Government securities	13,223,291	10,363,630	-	23,586,921
Mortgage-backed securities	-	50,185,657	-	50,185,657
Corporate bonds and notes	-	15,593,786	-	15,593,786
Total investments by fair value level	$ 22,845,301	$ 76,143,073	$ -	$ 98,988,374

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

	Assets Measured at Fair Value on a Recurring Basis			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2017
Money market	$ 8,911,016	$ -	$ -	$ 8,911,016
Government securities	13,805,430	12,764,482	-	26,569,912
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	$ 22,716,446	$ 68,077,277	$ -	$ 90,793,723

The tables above do not include accrued income of $359,773 and $342,452 as of September 30, 2018 and 2017, 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 7 - Capital Assets

Capital asset activity for the years ended September 30, 2018 and 2017 was as follows:

Business-type Activities

	Balance October 1, 2017	Reclassifications	Additions	Disposals and Adjustments	Balance September 30, 2018
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	103,592,158	(517,304)	-	-	103,074,854
Capital assets being depreciated:					
Buildings	5,285,686	517,304	23,779	-	5,826,769
Equipment and vehicles	5,632,288	-	558,778	(94,940)	6,096,126
Subtotal	10,917,974	517,304	582,557	(94,940)	11,922,895
Accumulated depreciation:					
Buildings	2,842,695	-	112,490	-	2,955,185
Equipment and vehicles	3,430,934	-	606,721	(93,657)	3,943,998
Subtotal	6,273,629	-	719,211	(93,657)	6,899,183
Net capital assets being depreciated	4,644,345	517,304	(136,654)	(1,283)	5,023,712
Net capital assets	$ 108,236,503	$ -	$ (136,654)	$ (1,283)	$ 108,098,566

	Balance October 1, 2016	Additions	Disposals and Adjustments	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

Note 7 - Capital Assets (Continued)

Depreciation expense was charged to functions as follows for the years ended September 30, 2018 and 2017:

	2018	2017
Bridge operations	$ 304,559	$ 313,670
Maintenance	249,326	114,903
General operations	112,650	99,069
Preservation costs	52,676	171,658
Total depreciation expense	$ 719,211	$ 699,300

Note 8 - 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:

	2018	2017
Michigan Department of Transportation	$ 4,030,902	$ 2,708,632
Michigan Department of Labor and Economic Growth	-	760
Unemployment Insurance Agency State of Michigan	987	-
Michigan State Police	100,000	100,000
Total	$ 4,131,889	$ 2,809,392

Note 9 - Long-term Obligations

Long-term liability activity for the years ended September 30, 2018 and 2017 was as follows:

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	$ 558,935	$ -	$ (41,212)	$ 517,723	$ 279,152
Prepaid tolls	1,202,033	-	(17,973)	1,184,060	1,184,060
Unearned revenue	1,056,166	130,962	(81,625)	1,105,503	217,578
Total	$ 2,817,134	$ 130,962	$ (140,810)	$ 2,807,286	$ 1,680,790

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	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

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 10 - 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:

	Workers' Compensation	
	2018	2017
Estimated liability - Beginning of year	$ 175,524	$ 57,549
Estimated incurred claims	254,966	253,491
Claim payments	(295,866)	(135,516)
Estimated liability - End of year	$ 134,624	$ 175,524

Note 11 - Pension Plans

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. Executive Order 2015-13, signed by the governor on October 27, 2015, established the State of Michigan Retirement Board. The board consists of nine members - five appointed by the governor, which consist of two members of the State Employees' Retirement System, at least one of whom is a retirant; one member of the Judges Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions; one member of the general public; and the attorney general, state treasurer, legislative auditor general, and state personnel director, who serves as an ex-officio member.

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 11 - Pension Plans (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.

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.

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 younger than 60 years old at termination.

Note 11 - Pension Plans (Continued)

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.

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.

Note 11 - Pension Plans (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 members' 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 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.

Note 11 - Pension Plans (Continued)

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 the 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.

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 2018, the Authority’s contribution rate was 24.6 percent of the defined benefit employee wages and 19.73 percent of the defined contribution employee wages. The Authority’s contribution to SERS for the fiscal year ended September 30, 2018 was $886,781.

For fiscal year 2017, the Authority's contribution rate was 25.5 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.

Net Pension Liability, Deferrals, and Pension Expense

At September 30, 2018, the Authority reported a liability of $7,080,730 for its proportionate share of SERS' net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 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, 2016 through September 30, 2017, relative to the total required employer contributions from all SERS' participating employers. At September 30, 2017, the Authority's proportion was 0.14 percent.

Note 11 - Pension Plans (Continued)

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 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, the Authority's proportion was 0.13 percent.

For the years ended September 30, 2018 and 2017, the Authority recognized pension expense of $1,589,970 and $961,069, respectively.

At September 30, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and differences between actual contributions and proportionate share of contributions	$ 10,329	$ -	$ 77,376	$ 476
Differences between expected and actual experience	1,624	-	843	-
Net difference between projected and actual earnings on pension plan investments	-	424,864	158,315	-
Authority's contributions to the plan subsequent to the measurement date	886,781	-	965,299	-
Changes of assumptions	58,286	-	-	-
Total	$ 957,020	$ 424,864	$ 1,201,833	$ 476

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, 2019. 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	Amount
2019	$ (101,068)
2020	34,493
2021	(136,394)
2022	(151,656)

Note 11 - Pension Plans (Continued)

Actuarial Assumptions

The Authority's net pension liability for the year ended September 30, 2018 was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 and rolled forward using generally accepted actuarial procedures. 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 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 percent
Projected salary increases	3.5 - 12.5 percent, including wage inflation at 3.5 percent
Investment rate of return	7.5 percent at September 30, 2017 and 8.0 percent at September 30, 2016
Cost of living pension adjustment	3 percent annual noncompounded with maximum annual increases of $300 for those eligible
Mortality rates	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 were used. For active members, 50 percent of the table rates were used for male and females.

The actuarial assumptions were based upon the results of an experience study covering the period from October 1, 2007 through September 30, 2012.

Discount Rate

A discount rate of 7.5 and 8.0 percent was used to measure the total pension liability as of September 30, 2017 and 2016, respectively. This discount rate was based on the long-term expected rate of return on pension plan investments of 7.5 and 8.0 percent as of September 30, 2017 and 2016, respectively. 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, 2017 and 2016 are summarized in the following tables:

	2017	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	28.00 %	5.60 %
International equity pools	16.00	7.20
Private equity pools	18.00	8.70
Real estate and infrastructure pools	10.00	4.20
Fixed-income pools	10.50	(0.10)
Absolute return pools	15.50	5.00
Short-term investment pools	2.00	(0.90)

Note 11 - Pension Plans (Continued)

*Long-term rates of return are net of administrative expenses and 2.3 percent inflation.

	2016	
Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	28.00 %	5.90 %
International equity pools	16.00	7.20
Private equity pools	18.00	9.20
Real estate and infrastructure pools	10.00	4.30
Fixed-income pools	10.50	0.90
Absolute return pools	15.50	6.00
Short-term investment pools	2.00	-

*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, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1 Percent Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percent Increase (8.5%)
September 30, 2018 net pension liability	$ 9,250,628	$ 7,080,730	$ 5,210,598

	1 Percent Decrease (7%)	Current Discount Rate (8%)	1 Percent Increase (9%)
September 30, 2017 net pension liability	$ 9,047,859	$ 7,046,740	$ 5,319,729

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.

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 $252,000 and $256,000 for the years ended September 30, 2018 and 2017, respectively, and are recorded in salaries and benefits expense.

Note 12 - Other Postemployment Benefit (OPEB) Plans

Defined Benefit OPEB Plan - Healthcare

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. Executive Order 2015-13, signed by the governor on October 27, 2016, established the State of Michigan Retirement Board. The board consists of nine members - five appointed by the governor, which consist of two members of the State Employees’ Retirement System, at least one of whom is a retirant; one member of the Judges Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retirant under the Military Retirement Provisions; one member of the general public; and the attorney general, state treasurer, legislative auditor general, and state personnel director, who serves as an ex-officio member. The System’s OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan State Employees’ Retirement Act.

The Michigan State Employees’ Retirement System is accounted for in a separate OPEB trust fund and also issues a publicly available financial report that includes financial statements and required supplemental information. Those reports may be obtained by visiting www.michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or 1-800-381-5111.

Benefits Provided

Benefit provisions of the other postemployment benefit (OPEB) plan are established by state statute, which may be amended. Public Act 240 of 1943, as amended, establishes eligibility and benefit provisions for the OPEB plan. Defined benefit (Tier 1) members are eligible to receive health, prescription drug, dental, and vision coverage on the first day they start receiving pension benefits. Defined contribution (Tier 2) participants who elected to retain the graded premium subsidy benefit under the reform elections of Public Act 264 of 2011 are also eligible to receive subsidized health prescription drug, dental, and vision coverage after terminating employment, if they meet eligibility requirements. Retirees with the premium subsidy benefit contribute 20 percent of the monthly premium amount for the health (including prescription coverage), dental, and vision coverage. Retirees with a graded premium subsidy benefit accrue credit towards insurance premiums in retirement, earnings a 30 percent subsidy with ten years of service, with an additional 3 percent subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80 percent. There is no provision for ad hoc or automatic increases. The State Employees’ Retirement Act requires joint authorization by DTMB and the Civil Service Commission to make changes to retiree medical benefit plans. Defined contribution (Tier 2) participants who elected the Personal Healthcare Fund under Public Act 264 of 2011 and those hired on or after January 1, 2012 are not eligible for any subsidized health, prescription drug, dental, or vision coverage in retirement, but may purchase it at their own expense (certain conditions apply).

Former nonvested members of the DB plan who are re-employed by the state on or after January 1, 2014 are not eligible for retiree health insurance coverage premium subsidy but will become a participant in the Personal Healthcare Fund.

This plan is closed to new hires.

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 percent of payroll value funding principles so the contribution rates do not have to increase over time. For fiscal year 2018, the Authority’s contribution rate was 22.1 percent of the defined benefit employee wages and 22.1 the defined contribution employee wages. The Authority’s contribution to SERS for the fiscal year ending September 30, 2018 was $973,801. Active employees are not required to contribute to SERS OPEB.

Note 12 - Other Postemployment Benefit (OPEB) Plans (Continued)

For fiscal year 2017, the Authority's contribution was 21.1 percent of the defined benefit employee wages and 21.1 percent of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ended September 30, 2017 was $901,266.

Actuarial Assumptions

The Authority's net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016 and rolled forward using generally accepted actuarial procedures. The total OPEB liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation rate	3.5 percent
Investment rate of return	7.5 percent
Projected salary increases	3.5 - 12.5 percent
Health care cost trend rate	9.0 percent Year 1 graded to 3.5 percent Year 10
Mortality	RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements. For active members, 50 percent of the male table rates were used. For women, 50 percent of the female table rates were used.

The actuarial assumptions were based upon the results of an experience study covering the period from October 1, 2007 through September 30, 2012.

The long-term expected rate of return on OPEB 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 OPEB plan's target asset allocation as of September 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic equity pools	28.00 %	5.60 %
International equity pools	16.00	7.20
Private equity pools	18.00	8.70
Real estate and infrastructure pools	10.00	4.20
Fixed-income pools	10.50	(0.10)
Absolute return pools	15.50	5.00
Short-term investment pools	2.00	(0.90)
Total	100.00 %	

*Long-term rates of return are net of administrative expenses and 2.3 percent inflation.

Note 12 - Other Postemployment Benefit (OPEB) Plans (Continued)

Discount Rate

A single discount rate of 7.5 percent was used to measure the total OPEB liability. This single discount rate was based on the expected rate of return on OPEB plan investments of 7.5 percent. The projection of cash flows used to determine this single discount rate assumed that, in the future, 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 (retiree) rate. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 OPEB liability.

Net OPEB Liability

At September 30, 2018, the Authority reported a liability of $11,565,225 for its proportionate share of SERS' net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016 and rolled forward using generally accepted actuarial procedures. The Authority’s proportion of the net OPEB liability was based on the Authority’s required OPEB contributions received by SERS during the measurement period from October 1, 2016 through September 30, 2017, relative to the total required employer contributions from all of SERS’ participating employers. At September 30, 2017, the Authority’s proportion was 0.1403 percent.

The investment return assumption was updated beginning with the September 30, 2016 valuation to reflect reductions in capital market assumptions for the asset classes in which the System invests. The investment return assumption was updated again beginning with the September 30, 2017 valuation in accordance with the dedicated gains policy adopted by the board of trustees. This assumption change will increase the computed liabilities.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net OPEB liability calculated using the discount rate, as well as what the proportionate share of the net OPEB liability would be if were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1 Percent Decrease (6.5%)	Current Discount Rate (7.5%)	1 Percent Increase (8.5%)
Authority's proportionate share of the net OPEB liability	$ 13,166,730	$ 11,565,225	$ 10,208,149

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Authority's proportionate share of the net OPEB liability calculated using the assumed trend rate, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1 percentage point lower or 1 percentage point higher than the current trend rate:

	1 Percent Decrease (8.0 to 2.5%)	Current Trend Rate (9.0 to 3.5%)	1 Percent Increase (10.0 to 4.5%)
Authority's proportionate share of the net OPEB liability	$ 10,129,196	$ 11,565,225	$ 13,212,166

Note 12 - Other Postemployment Benefit (OPEB) Plans (Continued)

OPEB Plan Fiduciary Net Position

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

OPEB Expense and Deferred Outflows of Resources and Deferred inflows of Resources Related to OPEB

For the year ended September 30, 2018, the Authority recognized OPEB expense of $947,347. At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 83,894
Net difference between projected and actual earnings on investments	-	100,165
Changes in proportion and differences between actual contributions and proportion share of contributions	-	70,928
Authority's contributions subsequent to the measurement date	973,801	-
Total	$ 973,801	$ 254,987

Amounts reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending	Amount
2019	$ (56,096)
2020	(56,096)
2021	(56,096)
2022	(56,096)
2023	(30,603)

Postemployment Life Insurance Benefits

Plan Description

The State of Michigan provides postemployment life insurance benefits (the "Plan") to eligible individuals upon retirement from state employment. Members of the State Employees' Retirement System (SERS), the State Police Retirement System (SPRS), the Judges' Retirement System (JRS), and certain members of the Military Retirement Provisions (MMRP) may receive a life insurance benefit if they meet the benefit eligibility requirements. The Plan is a single-employer, statewide, defined benefit other postemployment benefits (OPEB) plan. The State contracts with Minnesota Life to administer the payout of life insurance benefits. The Plan is administered by the Michigan Civil Service Commission under Article XI, Section 5 of the Michigan Constitution of 1963 and Michigan Civil Service Commission Rule 5-11.

Activity of the Plan is accounted for in the State Sponsored Group Insurance Fund (the "Fund"), an internal service fund in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). The Fund was administratively established to account for employee insurance benefit programs, which are largely self-funded. Five group insurance programs are offered to state employees: health, dental, vision, long-term disability, and life.

The Plan is not a trust and has no assets.

Note 12 - Other Postemployment Benefit (OPEB) Plans (Continued)

Benefits Provided

The State's group policy with Minnesota Life includes any active employee in the category of classified State service with an appointment of at least 720 hours duration, but excluding employees with noncareer appointments and those working less than 40 percent of full time; any active official or active unclassified employee of the State who has been approved for coverage by the Civil Service Commission; any retired employee or official who was insured under this policy or the prior policies it replaced prior to entry into a State Retirement System; and Wayne County employees who a) were State Judicial Council employees on October 1, 1996 and whose employment was transferred to the Recorder's Court on October 1, 1996 and b) whose employer subsequently became the Wayne County clerk's office.

Eligible retirees are provided with life insurance coverage equal to 25 percent of the active life insurance coverage (the amount of which is rounded to the next higher $100 provided the retiree retired after July 1, 1974), $1,000 for spouse and $1,000 for each dependent under age 23.

The active life insurance amount is either a) two times the employee's basic annual salary, the result rounded to the next higher $1,000 if not already a multiple thereof, with a minimum of $100,000 and a maximum of $200,000 or b) one times the employee's basic annual salary, the result rounded to the next higher $1,000 if not already a multiple thereof, with a minimum of $10,000 and a maximum of $50,000.

Contributions

The State contributes 100 percent of the premiums for employee and retiree life insurance coverage. The premium rate for fiscal year 2018 was $0.24 for each $1,000 of coverage through October 8, 2017. It was then updated to $0.28 for each $1,000 of coverage for the remainder of the fiscal year. The employee contributes 100 percent of the premiums for dependent life coverage, and an employee must have been enrolled in dependent life insurance to maintain eligibility for dependent coverage as a retiree. The State is liable for benefit payments that exceed premiums paid. The Michigan Civil Service Commission is responsible for establishing and amending funding policies.

More specific information concerning eligibility requirements, benefit level, and funding policies is included in employee collective bargaining agreements, benefit plan booklets, and rules and regulations issued by the Michigan Civil Service Commission.

Actuarial Valuations and Assumptions

The Authority's total OPEB liability for the year ended September 30, 2018 was measured as of September 30, 2017 and is based on an actuarial valuation performed as of that date.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

The normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method with these characteristics: a) the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement; and b) each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Note 12 - Other Postemployment Benefit (OPEB) Plans (Continued)

The total OPEB liability was measured using the following actuarial assumptions:

Wage inflation rate	3.5 percent
Investment rate of return (discount rate):	3.5 percent per year

Mortality - Healthy Life and Disabled Life Mortality, with 115 percent of the male rates and 121 percent of the female rates used in the pension valuations for SERS plan members.

IBNR - A liability equal to 25 percent of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).

Spouse Benefits for Future Retirees - The liabilities for active members were loaded to account for potential postemployment life insurance benefits payable to spouses of future retirees at 3 percent for SERS retirees.

Spouse Benefits for Current Retirees - Data regarding postemployment life insurance benefits coverage for spouses of current retirees was not available. Liabilities for retired members were loaded to account for postemployment life insurance benefits payable to the spouses of current retirees at 4 percent for SERS retirees.

Compensation - For some SERS retirees, FAC was not reported. The FAC for these members was assumed to be $51,045 (the average of all SERS retiree records reported with FAC).

For the purpose of valuing the postemployment life insurance benefit policies for retirees, base wage at retirement was not available and was approximated by applying a factor to the reported FAC at retirement. The factor used to convert a FAC to a base wage is based on the length of the FAC period for each group. The factor used for SERS was 0.983092 (two-year FAC) for Conservation and 0.966565 (three-year FAC) for Corrections and All Others.

For SERS DC plan retirees, compensation at retirement and other information was not provided to the actuary. The postemployment life insurance benefit policies for this group were assumed to have the same average value as the policies for retirees in the SERS DB plan.

Other: The face values of the plan policies currently in force were requested by the actuary but were not available for use in this valuation. The actuary estimated the value of the postemployment life insurance benefit policies for retirees as follows:

Individuals retired after July 1974: 50 percent x compensation at retirement (compensation reported for the 2017 retirement system valuations):

Spousal benefits:	$1,000
Individuals retired on or before July 1974:	$3,000
Spousal benefits:	$1,000

Data for current retiree members of the Plan was not available for use in this valuation. All current retiree members of the retirement plans deemed eligible for postemployment life insurance benefits and reported in connection with the 2017 retirement valuations were included in this valuation of the Plan.

Discount Rate

A discount rate of 3.50 percent was used to measure the ending total OPEB liability for postemployment life insurance benefits as of September 30, 2017. This discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date since the plan has no assets. The municipal bond rate of 3.1 percent was used for determining the beginning total OPEB liability for postemployment life insurance benefits as of September 30, 2016.

Note 12 - Other Postemployment Benefit (OPEB) Plans (Continued)

Total OPEB Liability for Postemployment Life Insurance Benefits

As of September 30, 2017, the Authority reported a liability of $1,734,447 for its proportionate share of the State's postemployment life insurance benefit's total OPEB liability. The total OPEB liability was measured as of September 30, 2017 based on an actuarial valuation as of that date. The Authority's proportion of the total OPEB liability was determined by dividing the Authority's actual contributions to the Plan during the measurement period of October 1, 2016 through September 30, 2017, by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2017, the Authority's proportion was 0.136 percent.

Sensitivity of the Total OPEB Liability for Postemployment Life Insurance

The following presents the Authority's proportionate share of the net OPEB liability calculated using the discount rate, as well as what the proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount:

	1 Percent Decrease (2.5%)	Current Discount Rate (3.5%)	1 Percent Increase (4.5%)
Authority's proportionate share of the net OPEB liability	$ 2,038,519	$ 1,734,447	$ 1,491,830

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB for Postemployment Life Insurance Benefits

For the year ended September 30, 2018, the Authority recognized OPEB expense of $93,258. At September 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,456	$ -
Changes of assumptions	-	94,034
Authority's contributions subsequent to the measurement date	61,129	-
Total	$ 62,585	$ 94,034

Amounts reported as deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended September 30	OPEB Expense Amount
2019	$ (18,998)
2020	(18,998)
2021	(18,998)
2022	(18,998)
2023	(16,586)

Note 12 - Other Postemployment Benefit (OPEB) Plans (Continued)

Amounts reported for defined benefit postemployment benefits other than pensions and postemployment life insurance benefits are aggregated on the statement of net position as follows:

	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
Postemployment benefits other than pensions	$ 11,565,225	$ 973,801	$ 254,987
Postemployment life insurance benefits	1,734,447	62,585	94,034
Total	$ 13,299,672	$ 1,036,386	$ 349,021

Defined Contribution OPEB Plan

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 13 - Unrestricted Net Position

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

	2018	2017
Designated for repairs, maintenance, and preservation of infrastructure	$ 72,846,354	$ 79,131,701
Designated for self-insurance	1,000,000	1,000,000
Undesignated	500,000	500,000
Total unrestricted net position	$ 74,346,354	$ 80,631,701

Note 14 - Commitments

As of September 30, 2018, 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 $769,000.

Note 15 - Change in Accounting Principle

During the current year, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the financial statements now include a net other postemployment benefit (OPEB) liability for the Authority's unfunded postemployment benefit plan legacy costs. Some of the changes in this net OPEB liability each year will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to Note 12 for further details. As a result of implementing this statement, the net position of the Authority as of October 1, 2017 has been restated by $(12,606,633) to $176,261,571. Of the $(12,606,633) restatement, $(13,548,907) was related to the beginning of year net OPEB liability and $942,274 was related to the beginning of year deferred outflows for employer contributions made subsequent to the measurement date. The restatement of the fiscal year 2017 financial statements was not practical, as all necessary information for such a restatement was not available from the OPEB plan. As such, the fiscal year 2017 financial statements have not been restated.

Note 16 - Upcoming Accounting Pronouncements

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.

Note 17 - Subsequent Events

On October 1, 2018, the Authority entered into a contract agreement with IBI Group for approximately $4.6 million. IBI Group will provide the Authority with a new toll system and assist with the implementation of the new toll system.

On November 19, 2018, the Authority entered into a contract agreement with Seaway Painting in the amount of approximately $6.5 million for painting of the bridge.

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 2018 was “good to fair” as determined by inspection procedures. The condition rating for fiscal years 2017, 2016, 2015, and 2014 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.

	2018	2017	2016	2015	2014
Needed	$ 8,322,304	$ 7,848,810	$ 5,166,233	$ 12,696,194	$ 10,281,889
Actual	8,428,648	8,049,054	3,894,976	14,636,879	10,255,894

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 Net Pension Liability
State Employees' Retirement System

Last Four Plan Years

Years Ended September 30

	2018	2017	2016	2015
Authority's proportion of the net pension liability	0.14000 %	0.13000 %	0.13000 %	0.12000 %
Authority's proportionate share of the net pension liability	$ 7,080,730	$ 7,046,740	$ 6,901,557	$ 6,389,681
Authority's covered payroll	$ 4,383,764	$ 4,285,616	$ 4,110,767	$ 3,957,563
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	161.52 %	164.43 %	167.89 %	161.45 %
Plan fiduciary net position as a percentage of total pension liability	69.45 %	67.48 %	66.11 %	68.10 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority presents information for those years for which information is available.

Required Supplemental Information
Schedule of the Authority's Pension Contributions
State Employee's Retirement System

Last Four Fiscal Years

Years Ended September 30

	2018	2017	2016	2015
Statutorily required contribution	$ 886,781	$ 965,299	$ 951,610	$ 968,606
Contributions in relation to the statutorily required contribution	886,781	965,299	951,610	968,606
Contribution Deficiency	**$ -**	**$ -**	**$ -**	**$ -**
Authority's Eligible Compensation	$ 4,383,764	$ 4,285,616	$ 4,110,767	$ 3,957,563
Contributions as a Percentage of Covered Payroll	20.23 %	22.52 %	23.15 %	24.47 %

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority presents information for those years for which information is available.

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	20 years
Asset valuation method	Five-year smoothed fair value
Inflation	2.50 percent
Salary increase	3.5 to 12.5 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.

Required Supplemental Information
Schedule of the Authority's Proportionate Share of Net OPEB Liability
State Employees' Retirement System - Healthcare

Last Plan Year

Year Ended September 30, 2018

	2018
Authority's proportion of the net OPEB liability	0.14025 %
Authority's proportionate share of the net OPEB liability	$ 11,565,225
Authority's covered payroll	$ 4,383,764
Authority's proportionate share of the net OPEB liability as a percentage of its covered payroll	263.82 %
Plan fiduciary net position as a percentage of total OPEB liability	19.89 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority presents information for those years for which information is available.

Required Supplemental Information
Schedule of the Authority's OPEB Contributions
State Employees' Retirement System - Healthcare

Last Fiscal Year

Year Ended September 30

	2018
Statutorily required contribution	$ 973,801
Contributions in relation to the statutorily required contribution	973,801
Contribution Deficiency	**$ -**
Authority's Covered Payroll	$ 4,383,764
Contributions as a Percentage of Covered Payroll	22.21 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority presents information for those years for which information is available.

Required Supplemental Information
Note to OPEB Required Supplemental Information Schedules

Last One Fiscal Years

Year Ended September 30, 2018

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 other postemployment benefit obligations as a factor.

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

The schedule of the proportionate share of the net OPEB liability and schedule of contributions for OPEB are schedules that are required in implementing GASB Statement No. 75. The Schedule of Contributions is a comparison of the employer'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 actuarially determined contribution rate. Additional information as of the latest actuarial valuation for the OPEB 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
Amortization method	Level percent of payroll
Remaining amortization period	20 years
Asset valuation method	Market value of assets
Salary increases	3.5 percent
Investment rate of return	8.0 percent per year
Healthcare cost trend rate	9.0 percent year 1 graded to 3.5 percent year 10
Mortality	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For men and women, 50 percent of the male table rates were used.

Required Supplemental Information
Schedule of the Authority's Proportionate Share of Net OPEB Liability
Postemployment Life Insurance Benefit

Last Plan Year

Year Ended September 30, 2018

	2018
Authority's proportion of the net OPEB liability	0.00136 %
Authority's proportionate share of the net OPEB liability	$ 1,734,447
Authority's covered payroll	$ 4,383,764
Authority's proportionate share of the net OPEB liability as a percentage of its covered payroll	39.57 %

The amounts presented for each fiscal year were determined as of the measurement date of September 30 of the previous year. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority presents information for those years for which information is available.

The Plan is not a trust and has no assets.

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

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 September 30, 2018 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 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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.*

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

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 12, 2018