

Office of the Auditor General
Financial Audit Including Report on Internal Control, Compliance, and
Other Matters

Mackinac Bridge Authority
(A Discretely Presented Component Unit of the State of Michigan)

Fiscal Year Ended September 30, 2020

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

The auditor general may make investigations pertinent to the conduct of audits.



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Report Summary

Financial Audit Including Report on Internal Control, Compliance, and Other Matters

Mackinac Bridge Authority

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

Fiscal Year Ended September 30, 2020

Report Number:
591-0210-21

Released:
March 2021

The Mackinac Bridge Authority (Authority) 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 Mackinac Bridge is provided by fares and earnings on investments.

Auditor's Report Issued

UNMODIFIED OPINION

MODIFIED OPINION

We issued an unmodified opinion on the Authority's basic financial statements to reflect that they were fairly presented, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control, Compliance, and Other Matters

We issued our report on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

Findings Related to Internal Control, Compliance, and Other Matters	Material Weakness	Significant Deficiency	Agency Preliminary Response
Financial reporting processes should be improved to help ensure that the Authority's financial statements are prepared efficiently and accurately (<u>Finding #1</u>).		X	Agrees

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Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



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Doug A. Ringler, CPA, CIA
Auditor General

March 31, 2021

Mr. Patrick F. Gleason, Chair
Mackinac Bridge Authority Board of Directors
and
Kim Nowack, PE, Executive Secretary
Mackinac Bridge Authority
N415 I-75
St. Ignace, Michigan

Dear Mr. Gleason and Ms. Nowack:

This is our report on the financial audit including the report on internal control, compliance, and other matters of the Mackinac Bridge Authority, a discretely presented component unit of the State of Michigan, for the fiscal year ended September 30, 2020.

Your agency provided the preliminary response to the recommendation at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Office upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,

Doug Ringler
Auditor General

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INDEPENDENT AUDITOR'S REPORT



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Doug A. Ringler, CPA, CIA
Auditor General

Independent Auditor's Report on the Financial Statements
and Other Reporting Required by *Government Auditing Standards*

Mr. Patrick F. Gleason, Chair
Mackinac Bridge Authority Board of Directors
and
Kim Nowack, PE, Executive Secretary
Mackinac Bridge Authority
N415 I-75
St. Ignace, Michigan

Dear Mr. Gleason and Ms. Nowack:

Report on the Financial Statements

We have audited the accompanying financial statements of the Mackinac Bridge Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2020 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Mackinac Bridge Authority as of September 30, 2020 and the changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters*Prior Year Audited by Other Auditor*

The financial statements of the Authority as of and for the fiscal year ended September 30, 2019 were audited by a predecessor auditor. The predecessor auditor's report on the financial statements, dated December 11, 2019, expressed an unmodified opinion on those financial statements.

The predecessor auditor included an other matters paragraph stating that it applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. The predecessor auditor did not express an opinion or provide any assurance on the information because the limited procedures did not provide sufficient evidence to express an opinion or provide any assurance.

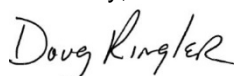
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information other than the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information as of and for the fiscal year ended September 30, 2020 in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Sincerely,



Doug Ringler
Auditor General
March 12, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (Unaudited)

This section of the Mackinac Bridge Authority's (Authority's) annual financial report is management's discussion and analysis of the Authority's financial performance during the fiscal year that ended on September 30, 2020. 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 \$15,864,940, or 7.1%, over the course of fiscal year 2020 operations. Total assets increased by \$14,109,032, or 6.7%, over the course of fiscal year 2019 operations. The increase was primarily due to an increase in earnings on the Authority's investments.
- Total liabilities increased by \$581,960, or 2.2%, during fiscal year 2020, primarily due to the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 68 and Statement No. 75. Total liabilities decreased by \$1,672,736, or 5.9%, from fiscal year 2018 to fiscal year 2019.
- Total net position increased by \$15,421,959, or 7.8%, due to an increase in unrestricted assets designated for future repair and maintenance of the Mackinac Bridge.
- Traffic crossing the Mackinac Bridge throughout the fiscal year totaled 3,815,080 vehicles, which was 396,174, or 9.4%, fewer vehicles than the previous fiscal year. Traffic increased by 34,003, or 0.8%, from fiscal year 2018 to fiscal year 2019.
- Gross toll revenue decreased by \$1,894,740, or 8.1%, due to a 9.4% decrease in traffic crossing the Mackinac Bridge over the fiscal year in response to the COVID-19 pandemic. Toll revenue decreased by \$122,850, or 0.5%, from fiscal year 2018 to fiscal year 2019.
- Investments increased by \$7,156,492 due to an increase in interest earnings of \$3,435,286 plus an unrealized gain of \$3,721,205. Investments increased from fiscal year 2018 to fiscal year 2019 by \$9,757,430 due to an increase in interest earnings of \$834,714 as well as market values increasing in the amount of \$8,922,716.
- Total operating expenses decreased from fiscal year 2019 to fiscal year 2020 by \$3,164,189, or 19.3%, primarily due to decreased labor, other postemployment benefits (OPEB), and toll collection costs and the timing of the executive order shutdown in regard to the COVID-19 pandemic.
- Expenses to operate and manage the Mackinac Bridge decreased from fiscal year 2019 to fiscal year 2020 by \$1,109,708, or 12.4%, due to decreased salaries and benefits during the COVID-19 pandemic.
- Expenses to preserve and maintain the Mackinac Bridge and related infrastructure totaled \$5,445,230 in the current fiscal year, which was \$2,054,481 less than the previous year primarily due to a decrease and extension of capital projects and program timing of other infrastructure preservation contracts because of the COVID-19 pandemic.

Overview of the Financial Statements

The Authority's financial statements include a statement of net position and a statement of revenues, expenses, and changes in net position. These statements report the Authority's net position as of September 30, 2020 and September 30, 2019 and how it has changed since September 30, 2019 and September 30, 2018, respectively. Net position, the difference between the Authority's assets, liabilities, and changes in deferred inflows of resources and

deferred outflows of resources for pensions, is a way to measure the Authority's current investment in the Mackinac Bridge and the capital assets needed to operate and preserve it, as well as its financial resources available for planned future preservation costs. Over time, increases or decreases in the Authority's net position are an indicator of its financial ability to continue with the necessary preservation of the Mackinac Bridge.

Also included is a statement of cash flows, which shows how cash was received and used throughout fiscal year 2020 and fiscal year 2019 to conduct the Authority's operations.

Financial Analysis

Net Position - The Authority's net position increased by \$15,421,959, or 7.8%, from fiscal year 2019 to fiscal year 2020, going from \$197,546,552 at the beginning of the year to \$212,968,511 at fiscal year-end. This increase was the result of a 7.1% increase in total assets. The Authority's net position increased by \$15,101,632, or 8.3%, from fiscal year 2018 to fiscal year 2019, going from \$182,444,920 at the beginning of the year to \$197,546,552 at fiscal year-end. This increase was the result of a 6.7% increase in total assets and a 5.9% decrease in total liabilities (see statement of net position).

The Authority's September 30, 2018 net position reflects a \$12.6 million negative entry to recognize the Authority's portion of the net healthcare and life insurance other postemployment benefits (OPEB) liability as a result of implementing GASB Statement No. 75.

Total assets increased from fiscal year 2019 to fiscal year 2020 by \$15,864,941 composed of a 613.8% increase in current assets which consists mainly of a \$23,678,387 increase in current investments and a \$8,553,529 increase in cash. Current assets consist primarily of cash and current investments. Current assets increased throughout the year by \$32,276,862 primarily due to a delay in the transfer of cash to the investment account caused by new accounting personnel not having access to the account and a \$23,678,387 increase in current investments. Noncurrent assets decreased by \$16,411,922 primarily due to a decrease in long-term investments by \$16,521,895, and \$3,435,286 of investment earnings added to the \$3,721,205 in unrealized investment gains. Capital assets consist of land; bridge, road, and plaza area infrastructure; and depreciable buildings, vehicles, and equipment. Capital assets increased by \$109,973 due to capital asset investments exceeding depreciation expense. Overall, the increase in total assets largely related to an increase in earnings on the Authority's investments.

Total assets increased from fiscal year 2018 to fiscal year 2019 by \$14,109,032 composed of a 37.9% decrease in current assets, a 17.1% increase in noncurrent investments, and a 1.3% increase in capital assets. Current assets consisted primarily of cash and current investments. Current assets decreased throughout the year by \$3,212,268 due to a \$315,626 decrease in cash, a \$2,941,141 decrease in current investments, and a \$44,499 increase in other current assets. Noncurrent investments increased by \$15,908,246 primarily due to the investment of \$7,125,916 in operating income and the \$2,851,733 of investment earnings plus the \$6,123,983 in unrealized investment gains. Capital assets consist of land; bridge, road, and plaza area infrastructure; and depreciable buildings, vehicles, and equipment. Capital assets increased by \$1,413,054 due to capital asset investment exceeding depreciation expense.

Total liabilities increased by \$581,960, or 2.2%, from fiscal year 2019 to fiscal year 2020 due to the implementation of GASB Statement No. 75. Total liabilities decreased by \$1,673,332, or 5.9%, from fiscal year 2018 to fiscal year 2019 due to the timing in payment of payroll invoices to the State of Michigan.

Statement of Net Position			
Fiscal Year			
	2020	2019	2018
Assets			
Current	\$ 37,532,661	\$ 5,255,799	\$ 8,468,067
Noncurrent			
Long-term investments	92,422,116	108,944,011	93,035,765
Capital assets	109,621,593	109,511,620	108,098,566
Total assets	<u>\$239,576,370</u>	<u>\$223,711,430</u>	<u>\$209,602,398</u>
Deferred Outflows of Resources	<u>\$ 3,623,154</u>	<u>\$ 2,884,589</u>	<u>\$ 1,993,406</u>
Liabilities			
Current	4,472,984	4,520,251	6,870,101
Noncurrent	22,812,643	22,183,416	21,506,898
Total liabilities	<u>\$ 27,285,627</u>	<u>\$ 26,703,667</u>	<u>\$ 28,376,999</u>
Deferred Inflows of Resources	<u>2,945,386</u>	<u>2,345,800</u>	<u>773,885</u>
Net Position			
Invested in capital assets	\$109,621,593	\$109,511,620	\$108,098,566
Unrestricted	103,346,918	88,034,932	74,346,354
Total net position	<u><u>\$212,968,511</u></u>	<u><u>\$197,546,552</u></u>	<u><u>\$182,444,920</u></u>

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 2020 increased by \$15,421,959 while net position for fiscal year 2019 increased by \$15,101,632 (see statement of changes in net position).

Statement of Changes in Net Position			
Fiscal Year			
	2020	2019	2018
Operating Revenues - Tolls, fees, and leases	\$21,764,130	\$23,557,041	\$23,910,812
Operating Expenses			
Operations	7,821,706	8,931,414	7,517,101
Infrastructure preservation	5,445,230	7,499,711	8,428,648
Total expenses	<u>\$13,266,936</u>	<u>\$16,431,125</u>	<u>\$15,945,749</u>
Nonoperating Revenues (Expense)			
Investment (loss) income	7,174,765	8,975,716	(781,714)
Payments on advance to the State of Michigan	(250,000)	(1,000,000)	(1,000,000)
Change in Net Position	<u><u>\$15,421,959</u></u>	<u><u>\$15,101,632</u></u>	<u><u>\$ 6,183,349</u></u>
Cumulative Effect of Change in Accounting	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$(12,606,633)</u></u>
Adjusted Change in Net Position	<u><u>\$15,421,959</u></u>	<u><u>\$15,101,632</u></u>	<u><u>\$ (6,423,284)</u></u>

Operating revenue for fiscal year 2020 of \$21,764,130 consisting of vehicle tolls, miscellaneous fees, and lease income decreased by 7.6% from the previous year. Net toll revenue decreased from \$23,137,294 for fiscal year 2019 to \$13,425,914 for fiscal year 2020. Expenses to operate, manage, and preserve the Mackinac Bridge and associated infrastructure decreased 18.3% from \$16,431,125 in fiscal year 2019 to \$13,266,936 in fiscal year 2020. Bridge operations and

management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, decreased by 12.4% for fiscal year 2020 primarily due to decreases in labor costs and consulting services directly related to the COVID-19 pandemic. Infrastructure preservation expenses for fiscal year 2020, totaling \$5,445,230, were \$2,054,481 less than the \$7,499,711 expensed during fiscal year 2019. The reasons for this difference in fiscal year preservation expenses were primarily due to decreases in labor costs and a decrease in required painting activity in fiscal year 2020 due to the COVID-19 pandemic and the timing/postponement of other preservation projects identified in the Authority's 20-year business plan.

Operating revenue for fiscal year 2019 of \$23,557,041 consisting of vehicle tolls, miscellaneous fees, and lease income decreased by 1.5% from the previous year. Net toll revenue went from \$23,204,423 for fiscal year 2018 to \$23,137,294 for fiscal year 2019. Expenses to operate, manage, and preserve the Mackinac Bridge and associated infrastructure during fiscal year 2019 went from \$15,945,749 for fiscal year 2018 to \$16,431,125 for fiscal year 2019 for an increase of 3.0%. Bridge operations and management, consisting of toll collection, customer services, equipment and facilities maintenance, snow removal, and finance and administration, increased by 18.8% for fiscal year 2019 primarily due to increases in labor and consulting costs. Infrastructure preservation expenses for fiscal year 2019, totaling \$7,499,711, were \$928,937 less than the \$8,428,648 expensed during fiscal year 2018. The reasons for this difference in fiscal year preservation expenses were a decrease in labor costs in fiscal year 2019 and the timing of other preservation projects identified in the Authority's 20-year business plan.

Net investment income for fiscal year 2020 increased \$7,174,765, resulting in a positive 6.0% rate of return on invested assets. This was \$1,800,951 less than the investment gain of \$8,975,716 reported for fiscal year 2019, which showed a positive 8.0% rate of return. Interest earnings were \$3,435,286 during fiscal year 2020 on an average investment of \$119.5 million, whereas \$2,851,733 was earned during fiscal year 2019 on an average investment of \$105.8 million. In addition to interest earnings, there were unrealized gains on investments of \$3,721,205 in fiscal year 2020 due to increases in market values of investments.

Net investment income for fiscal year 2019 was a gain of \$8,975,716, resulting in an 8.0% rate of return on invested assets. This was \$9,757,430 more than the investment loss of \$781,714 reported for fiscal year 2018, which showed a negative 0.8% rate of return. Interest earnings were \$2,851,733 during fiscal year 2019 on an average investment of \$105.8 million, whereas \$2,017,019 was earned during fiscal year 2018 on an average investment of \$95.2 million. This represents interest earnings at the rate of 2.5% and 2.1%, respectively. In addition to interest earnings, there was an unrealized gain on investments of \$6,123,983 in fiscal year 2019 due to increases in market values of investments.

Capital Asset and Debt Administration

Capital assets, consisting of the Mackinac Bridge and related infrastructure, land, buildings, and capital equipment, net of depreciation, increased by \$109,973 and \$1,413,054 as of September 30, 2020 and September 30, 2019, respectively. The increase in fiscal year 2020 was the result of \$1,696,007 in building improvements, new toll software, equipment, and vehicles. These additions to depreciable capital assets were reduced by the sale of \$23,511 in excess equipment and vehicles and a \$694,015 net increase in accumulated depreciation. The increase in fiscal year 2019 was the result of \$2,428,923 in building improvements, building work in progress, and the purchase of new equipment and vehicles. These additions to depreciable capital assets were reduced by the sale of \$1,351,629 in excess equipment and vehicles and a \$625,555 net increase in accumulated depreciation.

As of September 30, 2020, prepaid tolls and unearned revenue from leases were \$1,658,595 and \$948,550, respectively. The total value of vacation and sick leave balances due to employees as of September 30, 2020 was \$524,679. Outstanding noncurrent obligations

totaled \$22,812,643, which includes amounts due to the net pension and OPEB liability of \$8,984,874 and \$12,625,697, 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 increased by \$397,834 primarily due to the COVID-19 pandemic and the Authority not accepting cash for several months and the implementation of the new toll system. Unearned revenue decreased by \$78,626 due to the recognition of the Merit lease payment for 2020. Compensated absences increased by \$46,184 from fiscal year 2019 to 2020.

As of September 30, 2019, prepaid tolls and unearned revenue from leases were \$1,260,760 and \$1,027,176, respectively. The total value of vacation and sick leave balances due to employees as of September 30, 2019 was \$478,495. Outstanding noncurrent obligations totaled \$22,183,416, which include amounts due to the net pension and OPEB liability totaling \$8,187,194 and \$12,890,264, 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 increased by \$76,700 primarily due to increased sales of MacPasses. Unearned revenue decreased by \$78,327 during fiscal year 2019. Compensated absences increased by \$39,228 from fiscal year 2018 to 2019.

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's Michigan Bridge Management and Inspection System. For 2020, 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, 2020, the Authority had no pending or threatening litigation that would have a material effect on its financial statements. During fiscal year 2020, 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 Mackinac Bridge structure itself for physical damage.

On March 11, 2020, the World Health Organization declared a pandemic related to the outbreak of a respiratory disease caused by a new coronavirus. Known as COVID-19, the pandemic has impacted millions of individuals worldwide. Due to Statewide travel restrictions during the fiscal year, the COVID-19 pandemic had an adverse impact on commercial and recreational travel, which resulted in bridge traffic decreasing by 9.4%, or 396,174 vehicles, causing toll revenue to decrease by 8.2% or \$1.9 million compared with 2019. The Authority continues to evaluate the impact of COVID-19.

BASIC FINANCIAL STATEMENTS

MACKINAC BRIDGE AUTHORITY
Statement of Net Position
As of September 30

	2020	2019
Assets		
Current assets:		
Cash (Note 5)	\$ 10,047,520	\$ 1,493,991
Investments (Note 5)	27,049,628	3,371,241
Other assets	435,513	390,567
Total current assets	\$ 37,532,661	\$ 5,255,799
Noncurrent assets:		
Long-term investments (Note 5)	\$ 92,422,116	\$ 108,944,011
Capital assets (Note 7)		
Capital assets not being depreciated	103,074,854	103,074,854
Other capital assets - Net of depreciation	6,546,739	6,436,766
Total noncurrent assets	\$ 202,043,709	\$ 218,455,631
Total assets	\$ 239,576,370	\$ 223,711,430
Deferred Outflows of Resources		
Deferred outflows related to pensions (Note 11)	\$ 733,621	\$ 794,706
Deferred OPEB costs (Note 12)	2,889,533	2,089,883
Total deferred outflows of resources	\$ 3,623,154	\$ 2,884,589
Total assets and deferred outflows of resources	\$ 243,199,524	\$ 226,596,019
Liabilities		
Current liabilities		
Accounts payable	\$ 1,023,198	\$ 1,133,772
Due to State of Michigan (Note 8)	1,520,035	1,726,006
Unearned revenue (Note 9)	139,250	217,876
Prepaid tolls (Note 9)	1,658,595	1,260,760
Compensated absences (Note 9)	131,907	181,837
Total current liabilities	\$ 4,472,984	\$ 4,520,251
Noncurrent liabilities:		
Unearned revenue (Note 9)	\$ 809,300	\$ 809,300
Net pension liability (Note 11)	8,984,874	8,187,194
Net OPEB liability (Note 12)	12,625,697	12,890,264
Compensated absences (Note 9)	392,772	296,658
Total noncurrent liabilities	\$ 22,812,643	\$ 22,183,416
Total liabilities	\$ 27,285,627	\$ 26,703,667
Deferred Inflows of Resources		
Deferred inflows related to pensions (Note 11)	\$ 371,578	\$ 699,476
Deferred inflows related to OPEB (Note 12)	2,573,808	1,646,324
Total deferred inflows of resources	\$ 2,945,386	\$ 2,345,800
Total liabilities and deferred inflows of resources	\$ 30,231,013	\$ 29,049,467
Net Position		
Net investment in capital assets	\$ 109,621,593	\$ 109,511,620
Unrestricted (Note 13)	103,346,918	88,034,932
Total net position	\$ 212,968,511	\$ 197,546,552

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

MACKINAC BRIDGE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Position
Fiscal Years Ended September 30

	2020	2019
Operating Revenues - Tolls, fees, and leases	\$ 21,764,130	\$ 23,557,041
Operating Expenses		
Bridge operations	\$ 3,773,891	\$ 4,257,793
Maintenance	2,390,872	2,932,642
Administration	593,120	701,808
Finance	604,145	612,274
General operations	459,678	426,897
Preservation costs	5,445,230	7,499,711
Total operating expenses	\$ 13,266,936	\$ 16,431,125
Operating Income	\$ 8,497,194	\$ 7,125,916
Nonoperating Revenues (Expense)		
Investment gain (loss)	\$ 7,174,765	\$ 8,975,716
Payment on advance to State of Michigan	(250,000)	(1,000,000)
Total nonoperating revenues (expense)	\$ 6,924,765	\$ 7,975,716
Change in Net Position	\$ 15,421,959	\$ 15,101,632
Net Position - Beginning of year	197,546,552	182,444,920
Net Position - End of year	\$ 212,968,511	\$ 197,546,552

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

MACKINAC BRIDGE AUTHORITY
Statement of Cash Flows
Fiscal Years Ended September 30

	2020	2019
Cash Flows From Operating Activities		
Tolls and fees	\$ 22,072,608	\$ 23,817,680
Payments to suppliers	(1,771,943)	(922,292)
Payments to employees	(7,541,712)	(10,472,457)
Net cash provided by operating activities	\$ 12,758,953	\$ 12,422,931
Cash Flows From Capital and Related Financing Activities		
Proceeds from sale of capital assets	\$ 10,731	\$ 8,985
Purchase of capital assets	(1,063,639)	(2,428,923)
Payments of preservation costs	(2,920,790)	(5,314,991)
Payments on advance to the State of Michigan	(250,000)	(1,000,000)
Net cash used in capital and related financing activities	\$ (4,223,698)	\$ (8,734,929)
Cash Flows From Investing Activities		
Interest on investments	\$ 18,274	\$ 2,836,862
Purchases of investments	0	(13,152,872)
Proceeds from sale and maturity of investments		6,312,382
Net cash provided (used) in investing activities	\$ 18,274	\$ (4,003,628)
Net Increase (Decrease) in Cash	\$ 8,553,529	\$ (315,626)
Cash - Beginning of year	\$ 1,493,991	\$ 1,809,617
Cash - End of year	\$ 10,047,520	\$ 1,493,991
Reconciliation of Operating Income to Net Cash From Operating Activities		
Operating income	\$ 8,497,193	\$ 7,125,916
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation and amortization	939,264	756,857
Preservation costs reported as cash flow from capital activities	2,920,790	5,314,991
Gain on sale of capital asset	(10,731)	(8,985)
Loss on disposal of capital asset		267,997
Pension expense	1,271,670	
OPEB expense	785,916	
Deferred outflows - Contributions subsequent to the measurement date	(1,649,050)	
Changes in assets, liabilities, and deferred inflows:		
Other assets	(44,946)	(44,499)
Pension expense		1,377,788
Accounts payable	(110,574)	76,350
Due to State of Michigan	(205,971)	(2,405,883)
Prepaid tolls	397,834	(76,700)
Unearned revenue	(78,626)	78,327
Compensated absences	46,184	(39,228)
Net cash provided by operating activities	\$ 12,758,953	\$ 12,422,931

During 2020 and 2019, there were no noncash investing, capital, and financing activities.

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

NOTES TO THE FINANCIAL STATEMENTS

Note 1 Reporting Entity

The Mackinac Bridge Authority (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 Mackinac Bridge is provided by fares and earnings on investments.

The financial statements present only the Authority and do not purport to, and do not, present fairly the financial position of the State of Michigan or its component units as of September 30, 2020, the changes in its financial position, or, where applicable, its cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Note 2 Significant Accounting Policies

The accounting policies of the Mackinac Bridge Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of more significant policies:

a. Accounting and Reporting Principles

The Authority follows GAAP 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.

b. 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.

c. 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.

d. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand and demand deposits. 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.

e. 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:

	<u>Depreciable Life in Years</u>
Buildings	39
Equipment and vehicles	3 to 7

- f. 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 Mackinac Bridge.
- g. 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.
- h. Compensated Absences
Compensated absence costs are accrued when earned by employees.
- i. Revenues/Expenses
Operating revenues and expenses generally result from providing services and maintaining the Mackinac Bridge. All other revenues and expenses are reported as nonoperating. 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.
- j. Deferred Outflows/Inflows of Resources
In addition to assets, the statement of net position will 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 outflows of resources related to the pension and deferred outflows 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 inflows of resources related to the pension and deferred inflows of resources related to other postemployment benefit costs.
- k. 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/deductions from fiduciary net position of the

Michigan State Employees' Retirement System (SERS) or the postemployment life insurance benefits plan (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.

i. Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

m. 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 (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 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 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 Mackinac 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 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 \$250,000 in 2020 and \$1,000,000 in 2019 to the State of Michigan toward this advance. The total of the advances repaid as of September 30, 2020 is \$17,056,172. The repayment amounts have been determined by the Authority's finance committee, which considers the Mackinac Bridge's annual needs for maintenance and operations as well as planned future extraordinary repairs and improvements.

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

Note 5 Deposits and Investments

Cash and investments held by the Authority at September 30, 2020 and September 30, 2019 were as follows:

	2020	2019
Deposits	\$ 9,726,631	\$ 1,145,427
Investments	119,471,744	112,315,252
Cash on hand	320,889	348,564
Total	<u>\$129,519,264</u>	<u>\$113,809,243</u>

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

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

a. 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. As of September 30, 2020 and September 30, 2019, the Authority had \$9,987,863 and \$1,648,943, 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, 2020 and September 30, 2019. 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.

b. 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 September 30, 2020 and September 30, 2019, the Authority had the following investments and maturities:

	2020				
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Money market	\$ 27,049,628	\$27,049,628	\$	\$	\$
Government securities	31,822,422		3,252,500	25,605,078	2,964,844
Mortgage-backed securities	45,861,065	2,890	656,361		45,201,813
Government-backed securities	14,738,630		1,998,062	3,409,843	9,330,725
Total	<u>\$119,471,744</u>	<u>\$27,052,518</u>	<u>\$5,906,923</u>	<u>\$29,014,921</u>	<u>\$57,497,382</u>

	2019				
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Money market	\$ 5,421,169	\$	\$	\$	\$ 5,421,169
Government securities	33,930,817	362,405	14,055,284	18,425,588	1,087,540
Mortgage-backed securities	59,451,359		860,586	3,336,190	55,254,583
Government-backed securities	13,511,907	3,008,836	2,687,776		7,815,295
Total	<u>\$112,315,252</u>	<u>\$3,371,241</u>	<u>\$17,603,646</u>	<u>\$21,761,778</u>	<u>\$69,578,587</u>

c. 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 September 30, 2020 and September 30, 2019, the credit quality ratings of debt securities are as follows:

	2020		
	Fair Value	Rating	Rating Organization
Money market	\$27,049,628	Not rated	N/A
Government securities	\$31,822,422	AA	Standard & Poor's
Mortgage-backed securities	\$45,397,352	AA	Standard & Poor's
Government-backed securities	\$14,738,630	AA	Standard & Poor's
Freddie Mac	\$ 463,712	Not rated	N/A

	2019		
	Fair Value	Rating	Rating Organization
Money market	\$ 5,421,169	Not rated	N/A
Government securities	\$33,930,817	AA	Standard & Poor's
Mortgage-backed securities	\$59,451,359	AA	Standard & Poor's
Government-backed securities	\$13,511,907	AA	Standard & Poor's

d. 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 issue. The policy requires the Authority to limit investments in securities to any single issuer to 5% 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% of the Authority's total investments at September 30, 2020 and September 30, 2019:

	2020	
	Amount	Percentage of Investment
GNMA (Ginnie Mae)	\$45,397,352	49.1%
U.S. Treasury note	\$31,822,422	34.4%
Small Business Administration	\$ 4,784,149	5.2%

	2019	
	Amount	Percentage of Investment
GNMA (Ginnie Mae)	\$56,578,461	53.1%
U.S. Treasury note	\$27,910,635	26.2%
Small Business Administration	\$ 6,190,977	5.8%

Note 6 Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and 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, 2020:

	Assets Measured at Fair Value on a Recurring Basis			Balance at September 30, 2020
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Assets (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market	\$26,783,276	\$	\$	\$ 26,783,276
Government securities	31,822,422			31,822,422
Mortgage-backed securities		45,861,065		45,861,065
Government-backed securities		14,738,630		14,738,630
Total investments by fair value level	<u>\$58,605,698</u>	<u>\$60,599,695</u>	<u>\$0</u>	<u>\$119,205,393</u>

The Authority has the following recurring fair value measurements as of September 30, 2019:

	Assets Measured at Fair Value on a Recurring Basis			Balance at September 30, 2019
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Assets (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market	\$ 5,421,169	\$	\$	\$ 5,421,169
Government securities	27,910,635	5,657,777		33,568,412
Mortgage-backed securities		59,451,359		59,451,359
Corporate bonds and notes		13,511,907		13,511,907
Total investments by fair value level	<u>\$33,331,804</u>	<u>\$78,621,043</u>	<u>\$0</u>	<u>\$111,952,847</u>

The tables above do not include accrued income of \$266,351 and \$362,405 as of September 30, 2020 and September 30, 2019, 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 fiscal years ended September 30, 2020 and September 30, 2019 was as follows:

	Balance as of October 1, 2019	Reclassifications	Additions	Disposals and Adjustments	Balance as of September 30, 2020
Capital assets not being depreciated:					
Land	\$ 125,000	\$	\$	\$	\$ 125,000
Infrastructure - bridge	102,949,854				102,949,854
Subtotal	<u>\$103,074,854</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$103,074,854</u>
Capital assets being depreciated:					
Buildings	\$ 5,904,633	\$ 84,111	\$ 11,000	\$	\$ 5,999,744
Equipment and vehicles	7,095,555	(449,485)	1,197,214	(38,852)	7,804,432
Subtotal	<u>\$ 13,000,188</u>	<u>\$ (365,373)</u>	<u>\$1,208,214</u>	<u>\$ (38,852)</u>	<u>\$ 13,804,176</u>
Accumulated depreciation:					
Buildings	\$ 3,081,343	\$ 12,185	\$ 172,528	\$	\$ 3,266,056
Equipment and vehicles	3,482,080	(218,581)	766,734	(38,852)	3,991,381
Subtotal	<u>\$ 6,563,423</u>	<u>\$ (206,396)</u>	<u>\$ 939,262</u>	<u>\$ (38,852)</u>	<u>\$ 7,257,437</u>
Net capital assets being depreciated	<u>\$ 6,436,765</u>	<u>\$ (158,978)</u>	<u>\$ 268,952</u>	<u>\$ 0</u>	<u>\$ 6,546,739</u>
Net capital assets	<u><u>\$109,511,619</u></u>	<u><u>\$ (158,978)</u></u>	<u><u>\$ 268,952</u></u>	<u><u>\$ 0</u></u>	<u><u>\$109,621,593</u></u>
	Balance as of October 1, 2018	Reclassifications	Additions	Disposals and Adjustments	Balance as of September 30, 2019
Capital assets not being depreciated:					
Land	\$ 125,000	\$	\$	\$	\$ 125,000
Infrastructure - bridge	102,949,854				102,949,854
Subtotal	<u>\$103,074,854</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$103,074,854</u>
Capital assets being depreciated:					
Buildings	5,826,769	\$	\$ 77,864	\$	\$ 5,904,633
Equipment and vehicles	6,096,126		2,351,059	(1,351,629)	7,095,556
Subtotal	<u>11,922,895</u>	<u>\$ 0</u>	<u>\$2,428,923</u>	<u>\$(1,351,629)</u>	<u>\$ 13,000,189</u>
Accumulated depreciation:					
Buildings	\$ 2,955,185	\$	\$ 151,694	\$ (25,536)	\$ 3,081,343
Equipment and vehicles	3,943,998		605,163	(1,067,081)	3,482,080
Subtotal	<u>\$ 6,899,183</u>	<u>\$ 0</u>	<u>\$ 756,857</u>	<u>\$(1,092,617)</u>	<u>\$ 6,563,423</u>
Net capital assets being depreciated	<u>\$ 5,023,712</u>	<u>\$ 0</u>	<u>\$1,672,066</u>	<u>\$ (259,012)</u>	<u>\$ 6,436,766</u>
Net capital assets	<u><u>\$108,098,566</u></u>	<u><u>\$ 0</u></u>	<u><u>\$1,672,066</u></u>	<u><u>\$ (259,012)</u></u>	<u><u>\$109,511,620</u></u>

Depreciation expense was charged to functions as follows for fiscal years ended September 30, 2020 and September 30, 2019:

	<u>2020</u>	<u>2019</u>
Bridge operations	\$422,534	\$259,012
Maintenance	121,382	229,203
General operations	172,528	151,694
Preservation costs	<u>222,820</u>	<u>116,948</u>
Total depreciation expense	<u>\$939,264</u>	<u>\$756,857</u>

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 as of September 30, 2020 and September 30, 2019:

	<u>2020</u>	<u>2019</u>
Michigan Department of Transportation	\$1,489,285	\$1,726,006
State of Michigan - Department of Licensing and Regulatory Affairs	250	
State of Michigan - Treasury	<u>30,500</u>	
Total	<u>\$1,520,035</u>	<u>\$1,726,006</u>

Note 9 Long-Term Obligations

Long-term liability activity for the fiscal years ended September 30, 2020 and September 30, 2019 was as follows:

	<u>2020</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 478,495	\$ 46,184	\$	\$ 524,679	\$ 131,907
Prepaid tolls	1,260,760	397,835		1,658,595	1,658,595
Unearned revenue	<u>1,027,176</u>		<u>(78,626)</u>	<u>948,550</u>	<u>139,250</u>
Total	<u>\$2,766,431</u>	<u>\$444,019</u>	<u>\$ (78,626)</u>	<u>\$3,131,824</u>	<u>\$1,929,752</u>

	<u>2019</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 517,723	\$	\$ (39,228)	\$ 478,495	\$ 181,837
Prepaid tolls	1,184,060	76,700		1,260,760	1,260,760
Unearned revenue	<u>1,105,503</u>	<u>1,698</u>	<u>(80,025)</u>	<u>1,027,176</u>	<u>217,876</u>
Total	<u>\$2,807,286</u>	<u>\$78,398</u>	<u>\$(119,253)</u>	<u>\$2,766,431</u>	<u>\$1,660,473</u>

The total amount of prepaid toll balances is recorded as current. 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, except for 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 and those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2020</u>	<u>2019</u>
Estimated liability - Beginning of year	\$25,489	\$134,624
Estimated incurred claims	11,888	12,854
Claim payments	<u>(2,114)</u>	<u>(121,989)</u>
Estimated liability - End of year	<u>\$35,263</u>	<u>\$ 25,489</u>

Note 11 Pension Plans

a. 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 No. 2015-13, signed by the Governor on October 27, 2015, established the State of Michigan Retirement Board. The Board consists of nine members, five of whom are appointed by the Governor. The Board consists of two members of the Michigan State Employees' Retirement System, at least one of whom is a retiree; one member of the Michigan Judges' Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retiree under the Michigan Military Retirement Provisions; one member of the general public; and the Attorney General, State Treasurer, Legislative Auditor General, and State Personnel Director, who serve as ex officio members.

SERS is accounted for in a separate pension trust fund and issues a publicly available financial report that includes basic financial statements, notes to the basic financial statements, and required supplementary information. That report may be obtained by visiting www.michigan.gov/ors or by calling the Office of Retirement Services (ORS) at (517) 322-5103 or (800) 381-5111.

b. Benefits Provided

(1) Introduction

Benefit provisions of the defined benefit (DB) 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 DB plan. Retirement benefits are determined by final average compensation (FAC) 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.

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 DB plan to new entrants. All new employees become members of the defined contribution (DC) plan. The Act allows returning employees and members who left State employment on or before March 31, 1997 to elect the DB plan instead of the DC plan.

(2) 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 DB plan for future service and contribute 4% of their annual compensation to the pension fund until they terminate State employment. The 4% 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% of pay until they reach 30 years of service. When they reach 30 years of service, they will switch to the State's DC plan. The 4% 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% 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% employer contribution to their 401(k) account and are eligible for an additional dollar-for-dollar employer match of up to 3% of pay to the plan.

Deferred members of the DB plan (with 10 or more years of service) who are reemployed by the State on or after January 1, 2012 become participants in the DC plan. Their pension calculation is determined by their 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 reemployed 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 reemployed 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% of their compensation to a 401(k) or 457 account, earning a matching 2% employer contribution. They will also receive a credit into a health reimbursement account 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.

(3) Regular Retirement

The retirement benefit is based on a member's years of credited service (employment) and FAC. The normal benefit equals 1.5% 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 Public Act 264 of 2011, FAC is initially determined as the annual average of the highest 3 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 of FAC times 1.5% 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:

- (a) Age 60 with 10 or more years of credited service.
- (b) Age 55 with 30 or more years of credited service.
- (c) Age 55 with at least 15 but less than 30 years of credited service. The benefit allowance is permanently reduced 0.5% 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:

- (a) Age 51 with 25 or more years in a covered position.
- (b) 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.

(4) 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 layoffs by reason of deinstitutionalization.

(5) 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.

(6) 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.

(7) 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 redefine eligibility for deceased members' survivors. The new minimum duty-related death benefit has been increased to \$6,000.

(8) 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%, 75%, or 50% 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% Survivor Pension

Under this option, after the retiree's death, the beneficiary will receive 100% 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% Survivor Pension

Under this option, after the retiree's death, the beneficiary will receive 75% 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% option previously described. If the beneficiary predeceases the retiree, the pension "pops up" to the regular pension amount; another beneficiary cannot be named.

- 50% Survivor Pension

Under this option, after the retiree's death, the beneficiary will receive 50% 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% or 75% option previously described. If the beneficiary predeceases the retiree, the pension "pops up" to the regular pension amount; another beneficiary cannot be named.

- Equated Pension

An equated pension may be chosen by any member under age 65, except a disability retiree and an early supplemental retiree. Equated pensions provide an additional amount until age 65 and may be combined with the regular, 100%, 75%, or 50% 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. 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 Administration Office may vary from the estimate.

- (9) Postretirement Adjustments

One-time upward benefit adjustments were made in 1972, 1974, 1976, 1977, and 1987. Beginning on October 1, 1988, a 3% non-compounding 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 more than 8%

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% 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.

c. Contributions

(1) Member Contributions

Under Public Act 264 of 2011, members who voluntarily elected to remain in the DB plan contribute 4% 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.

(2) 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 2020, the Authority's contribution rate was 20.67% of the defined benefit employee wages and 17.43% of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ended September 30, 2020 was \$733,621.

For fiscal year 2019, the Authority's contribution rate was 21.98% of the defined benefit employee wages and 17.69% of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ended September 30, 2019 was \$794,706.

d. Net Pension Liability, Deferrals, and Pension Expense

At September 30, 2020, the Authority reported a liability of \$8,984,874 for its proportionate share of SERS's net pension liability. The net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 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, 2018 through September 30, 2019, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2019, the Authority's proportion was 0.1347%.

At September 30, 2019, the Authority reported a liability of \$8,187,194 for its proportionate share of SERS's net pension liability. The net pension liability was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017 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, 2017 through September 30, 2018, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2018, the Authority's proportion was 0.14%.

For the fiscal years ended September 30, 2020 and September 30, 2019, the Authority recognized pension expense of \$1,271,670 and \$2,338,056, respectively.

At September 30, 2020 and September 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020		2019	
	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	\$	\$	\$	\$
Differences between expected and actual experience				
Net difference between projected and actual earnings on pension plan investments		371,578		699,476
Authority's contributions to the plan subsequent to the measurement date	733,621		794,706	
Changes of assumptions				
Total	\$733,621	\$371,578	\$794,706	\$699,476

Amounts reported as deferred outflows of resources related to pensions resulting from the Authority's contributions after the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending September 30, 2021. 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
2021	\$(199,451)
2022	\$ (49,578)
2023	\$ 61,819

e. Actuarial Assumptions

The Authority's net pension liability for the fiscal year ended September 30, 2020 was measured as of September 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 and rolled forward using generally accepted actuarial procedures. The Authority's net pension liability for the fiscal year ended September 30, 2019 was measured as of September 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018 and rolled forward using generally

accepted actuarial procedures. The total pension liability for both years was determined using the following actuarial assumptions, at the valuation date:

	September 30, 2018	September 30, 2017
Wage inflation rate	2.75%	2.75%
Projected salary increase	2.75% through 11.75%	2.75% through 11.75%
Investment rate of return	6.7%	7.00%
Cost of living pension adjustment	3% annual noncompounded with maximum annual increases of \$300 for those eligible.	3% annual noncompounded with maximum annual increases of \$300 for those eligible.
Mortality basis	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006.	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006.
Notes	The actuarial assumptions were based upon the results of an experience study covering the period September 30, 2012 through September 30, 2017.	The actuarial assumptions were based upon the results of an experience study covering the period October 1, 2012 through September 30, 2017.

The actuarial assumptions at September 30, 2018 were based upon the results of an experience study covering the period from October 1, 2012 through September 30, 2017.

f. Discount Rate

A discount rate of 6.7% and 7.0% was used to measure the total pension liability as of September 30, 2019 and September 30, 2018, respectively. This discount rate was based on the long-term expected rate of return on pension plan investments of 6.7% and 7.0% as of September 30, 2019 and September 30, 2018, 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, 2019 and September 30, 2018 are summarized in the following tables:

Asset Class	2019		2018	
	Target Allocation	Long-Term Expected Real Rate of Return*	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equity pools	28.00%	5.50%	28.00%	5.70%
International equity pools	18.00%	8.60%	16.00%	7.20%
Private equity pools	16.00%	7.30%	18.00%	9.20%
Real estate and infrastructure pools	10.50%	1.20%	10.00%	3.90%
Fixed-income pools	10.00%	4.20%	10.50%	0.50%
Absolute return pools	15.50%	5.40%	15.50%	5.20%
Short-term investment pools	2.00%	0.80%	2.00%	

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

g. 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 one percentage point lower or one percentage point higher than the current discount rate:

	September 30, 2020		
	One Percentage Point Decrease (5.7%)	Current Discount Rate (6.70%)	One Percentage Point Increase (7.7%)
Net Pension Liability	\$11,560,697	\$8,984,874	\$6,795,771

	September 30, 2019		
	One Percentage Point Decrease (6.00%)	Current Discount Rate (7.00%)	One Percentage Point Increase (8.00%)
Net Pension Liability	\$10,708,732	\$8,187,194	\$6,039,741

h. 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 michigan.gov/ors.

i. 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% of payroll, with an additional match of up to 3.0%. 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 \$257,000 and \$273,000 for the fiscal years ended September 30, 2020 and September 30, 2019, respectively, and are recorded in salaries and benefits expense.

Note 12 Other Postemployment Benefit Plans

a. Defined Benefit OPEB Plan - Healthcare

(1) Plan Description

The Michigan State Employees' Retirement System is a single-employer, Statewide, defined benefit public employee retirement plan governed by the State of Michigan 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 No. 2015-13, signed by the Governor on October 27, 2016, established the State of Michigan Retirement Board. The Board consists of nine members, five of whom are appointed by the Governor. The Board consists of two members of the State Employees' Retirement System, at least one of whom is a retiree; one member of the Michigan Judges' Retirement System; one current or former officer or enlisted person in the Michigan Military Establishment who is a member or retiree under the Michigan Military Retirement Provisions; one member of the public; and the Attorney General, State Treasurer, Legislative Auditor General, and State Personnel Director, who serve as ex officio members. 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 basic financial statements and required supplementary information. Those reports may be obtained by visiting michigan.gov/ors or by calling the Customer Information Center at (517) 322-5103 or (800) 381-5111.

(2) Benefits Provided

Benefit provisions of the 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% of the monthly premium amount for the health (including prescription coverage), dental, and vision coverage. Retirees with a graded premium subsidy benefit accrue credit toward insurance premiums in retirement, earning a 30% subsidy with 10 years of service, with an additional 3% subsidy for each year of service thereafter, not to exceed the maximum allowed by statute or 80%. There is no provision for ad hoc or automatic increases. The State Employees' Retirement Act requires joint authorization by the Department of Technology, Management, and Budget 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 reemployed 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.

(3) 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 2020, the Authority's contribution rate was 25.79% of the defined benefit employee wages and 25.79% of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ended September 30, 2020 was \$870,337. Active employees are not required to contribute to SERS OPEB.

For fiscal year 2019, the Authority's contribution rate was 23.8% of the defined benefit employee wages and 23.8% of the defined contribution employee wages. The Authority's contribution to SERS for the fiscal year ended September 30, 2019 was \$1,047,616. Active employees are not required to contribute to SERS OPEB.

(4) Actuarial Assumptions

The Authority's net OPEB liability for the fiscal year ended September 30, 2020 was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018 and rolled forward using generally accepted actuarial procedures. The Authority's net OPEB liability for the fiscal year ended September 30, 2019 was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. The total OPEB liability was determined using the following actuarial assumptions, at the valuation date:

	September 30, 2018	September 30, 2017
Wage inflation rate	2.75%	2.75%
Investment rate of return	6.9%	7.00%
Projected salary increases	2.75% through 11.75%	2.75% through 11.75%
Healthcare cost trend rate	8.25% Year 1 graded to 3.0% Year 10	8.25% Year 1 graded to 3.0% Year 10
Mortality	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006.	RP-2014 Male and Female Employee Annuitant Mortality Table, adjusted for mortality improvements using the projection scale MP-2017 from 2006.

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, 2019 and September 30, 2018 are summarized in the following table:

Asset Class	2019		2018	
	Target Allocation	Long-Term Expected Real Rate of Return*	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equity pools	28.00%	5.50%	28.00%	5.70%
International equity pools	18.00%	8.60%	16.00%	7.20%
Private equity pools	16.00%	7.30%	18.00%	9.20%
Real estate and infrastructure pools	10.50%	1.20%	10.00%	3.90%
Fixed-income pools	10.00%	4.20%	10.50%	0.50%
Absolute return pools	15.50%	5.40%	15.50%	5.20%
Short-term investment pools	2.00%	0.80%	2.00%	
Total	<u>100.00%</u>		<u>100.00%</u>	

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

(5) Discount Rate

A single discount rate of 6.9% and 7.0% was used to measure the total OPEB liability as of September 30, 2019 and September 30, 2018, respectively. This single discount rate was based on the expected rate of return on OPEB plan investments of 6.9% and 7.0%, as of September 30, 2019 and September 30, 2018, respectively. 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.

(6) Net OPEB Liability

At September 30, 2020, the Authority reported a liability of \$10,942,382 for its proportionate share of SERS's net OPEB liability. The net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018 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, 2018 through September 30, 2019, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2019, the Authority's proportion was 0.1389%.

At September 30, 2019, the Authority reported a liability of \$11,153,097 for its proportionate share of SERS's net OPEB liability. The net OPEB liability was measured as of September 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017 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, 2017 through September 30, 2018, relative to the total required employer contributions from all of SERS's participating employers. At September 30, 2018, the Authority's proportion was 0.1406%.

(7) 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 it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	September 30, 2020		
	One Percentage Point Decrease (5.9%)	Current Discount Rate (6.9%)	One Percentage Point Increase (7.9%)
Authority's proportionate share of the net OPEB liability	\$12,758,647	\$10,942,382	\$9,421,421

	September 30, 2019		
	One Percentage Point Decrease (6.0%)	Current Discount Rate (7.0%)	One Percentage Point Increase (8.0%)
Authority's proportionate share of the net OPEB liability	\$12,879,960	\$11,153,097	\$9,704,734

(8) 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 one percentage point lower or one percentage point higher than the current trend rate:

	September 30, 2020		
	One Percentage Point Decrease (7.25% to 2.0%)	Current Healthcare Cost Trend Rate (8.25% to 3.0%)	One Percentage Point Increase (9.25% to 4.0%)
Authority's proportionate share of the net OPEB liability	\$9,339,862	\$10,942,382	\$12,802,386

	September 30, 2019		
	One Percentage Point Decrease (7.25% to 2.0%)	Current Healthcare Cost Trend Rate (8.25% to 3.0%)	One Percentage Point Increase (9.25% to 4.0%)
Authority's proportionate share of the net OPEB liability	\$9,616,623	\$11,153,097	\$12,938,331

(9) 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 michigan.gov/ors.

(10) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the fiscal years ended September 30, 2020 and September 30, 2019, the Authority recognized OPEB expense of \$731,708 and \$837,485, respectively. At September 30, 2020 and September 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$	\$2,053,018	\$	\$1,281,063
Net difference between projected and actual earnings on investments		51,708		148,658
Changes in proportion and differences between actual contributions and proportionate share of contributions	19,575	155,158	25,173	56,701
Changes in assumptions	1,824,119		930,322	
Authority's contributions subsequent to the measurement date	870,337		1,047,616	
Total	\$2,714,031	\$2,259,884	\$2,003,111	\$1,486,422

Amounts reported as deferred outflows of resources and deferred inflows 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 fiscal year ended September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2021	\$(199,451)
2022	\$ (49,578)
2023	\$ 61,819

b. Postemployment Life Insurance Benefits

(1) Plan Description

The State of Michigan provides postemployment life insurance benefits (Plan) to eligible individuals upon retirement from State employment. Members of the Michigan State Employees' Retirement System, the Michigan State Police Retirement System (SPRS), the Michigan Judges' Retirement System, and certain members of the Michigan Military Retirement Provisions may receive a life insurance benefit if they meet the benefit eligibility requirements. The Plan is a single-employer, Statewide defined benefit 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 (Fund), an internal service fund in the *State of Michigan Comprehensive Annual Financial Report*. 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.

(2) 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% 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, Michigan 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% 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.

(3) Contributions

The State contributes 100% of the premiums for employee and retiree life insurance coverage. The premium rate for fiscal year 2019 was \$0.28 for each \$1,000 of coverage and has remained consistent since. The employee contributes 100% 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.

(4) Actuarial Valuations and Assumptions

The Authority's total OPEB liability for the fiscal year ended September 30, 2020 was measured as of September 30, 2019 and is based on an actuarial valuation performed as of September 30, 2019 and rolled forward using generally accepted actuarial procedures. The Authority's total OPEB liability for the fiscal year ended September 30, 2019 was measured as of September 30, 2018 and is based on an actuarial valuation performed as of September 30, 2018.

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.

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

- (a) Wage Inflation Rate: 2.75% per year.
- (b) Investment Rate of Return (discount rate): 2.75% per year.

- (c) Mortality: Healthy Life and Disabled Life Mortality, with 100% of the male rates and 100% of the female rates used in the pension valuations for SERS plan members.
- (d) IBNR: A liability equal to 25% of expected first year cash flow was held for postemployment life insurance benefits claims incurred but not reported (IBNR).
- (e) 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% for SERS retirees.
- (f) 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% for SERS retirees.
- (g) Compensation: For some SERS retirees, FAC was not reported. The FAC for these members was assumed to be \$54,575 (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 an FAC to a base wage is based on the length of the FAC period for each group. The factor used for SERS was 0.986618 (two-year FAC) for conservation and 0.973475 (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.

- (h) 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% times 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.

(5) Discount Rate

A discount rate of 2.75% and 3.83% was used to measure the ending total OPEB liability for postemployment life insurance benefits as of September 30, 2019 and September 30, 2018, respectively. 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.

(6) Total OPEB Liability for Postemployment Life Insurance Benefits

As of September 30, 2020, the Authority reported a liability of \$1,682,152 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, 2019 based on an actuarial valuation as of September 30, 2018 and rolled forward using generally accepted actuarial procedures. 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, 2018 through September 30, 2019 by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2019, the Authority's proportion was 0.1373%.

As of September 30, 2019, the Authority reported a liability of \$1,737,167 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, 2018 based on an actuarial valuation as of September 30, 2017 and rolled forward using generally accepted actuarial procedures. 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, 2017 through September 30, 2018 by the percent of OPEB actual contributions received from all applicable employers. At September 30, 2018, the Authority's proportion was 0.139%.

(7) 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 one percentage point lower or one percentage point higher than the current discount rate:

	September 30, 2020		
	One Percentage Point Decrease (1.75%)	Current Discount Rate (2.75%)	One Percentage Point Increase (3.75%)
Authority's proportionate share of the net OPEB liability	\$2,005,767	\$1,682,152	\$1,430,394

	September 30, 2019		
	One Percentage Point Decrease (2.83%)	Current Discount Rate (3.83%)	One Percentage Point Increase (4.83%)
Authority's proportionate share of the net OPEB liability	\$2,031,131	\$1,737,167	\$1,502,349

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

For the fiscal year ended September 30, 2020, the Authority recognized OPEB expense of \$54,208. For the fiscal year ended September 30, 2019, the Authority recognized OPEB expense of \$73,652. At September 30, 2020 and September 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2020		2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 869	\$180,313	\$ 1,186	\$ 8,810
Net difference between projected and actual earnings on investments	30,737			
Changes in proportion and differences between actual contributions and proportionate share of contributions	98,804	19,002	38,673	
Changes in assumptions		114,609		151,092
Authority's contributions subsequent to the measurement date	45,092		46,913	
Total	\$175,502	\$313,924	\$86,772	\$159,902

Amounts reported as deferred outflows of resources and deferred inflows 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 ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending September 30	OPEB Expense Amount
2021	(\$48,559)
2022	(\$46,115)
2023	(\$28,177)
2024	(\$12,104)

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:

	September 30, 2020		
	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
Postemployment benefits other than pensions	\$10,942,382	\$2,714,031	\$2,259,884
Postemployment life insurance benefits	1,683,315	175,501	313,924
Total	\$12,625,697	\$2,889,533	\$2,573,808

	September 30, 2019		
	Net OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources
Postemployment benefits other than pensions	\$11,153,097	\$2,003,111	\$1,486,422
Postemployment life insurance benefits	1,737,167	86,772	159,902
Total	\$12,890,264	\$2,089,883	\$1,646,324

c. 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% of their compensation into a 401(k) or 457 account, earning a matching 2% 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:

	2020	2019
Designated for repairs, maintenance, and preservation of infrastructure	\$ 101,846,918	\$ 86,534,932
Designated for self-insurance	1,000,000	1,000,000
Undesignated	500,000	500,000
Total unrestricted net position	\$ 103,346,918	\$ 88,034,932

Note 14 Commitments

As of September 30, 2020, the Authority had outstanding commitments on contracts to complete painting, bridge resurfacing, cleaning, and maintenance of the Mackinac Bridge and consulting projects of approximately \$3,750,000.

As of September 30, 2019, the Authority had outstanding commitments on contracts to complete painting, bridge resurfacing, cleaning, and maintenance of the Mackinac Bridge and consulting projects of approximately \$5,359,000.

REQUIRED SUPPLEMENTARY INFORMATION

Modified Approach for Reporting Infrastructure Assets Required Supplementary Information

The condition of the Mackinac Bridge is determined by using inspection procedures in accordance with the latest American Association of State Highway Transportation Officials Manual for Condition Evaluation of Bridges (including amendments and interim specifications) and the Federal Highway Administration's Bridge Inspector's Reference 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's Michigan Bridge Management and 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 2020 was "good to fair" as determined by inspection procedures. The condition rating for fiscal year 2019 was "good," for fiscal year 2018 was "good to fair," and for fiscal years 2017, 2016, and 2015 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.

	2020	2019	2018	2017	2016
Needed	\$11,904,704	\$10,946,314	\$8,322,304	\$7,848,810	\$5,166,233
Actual	\$ 5,448,745	\$ 7,539,258	\$8,428,648	\$8,049,054	\$3,894,976

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.

MACKINAC BRIDGE AUTHORITY
Schedules of Required Supplementary Information - Pension Liability

Schedule of the Authority's Proportionate Share of Net Pension Liability
Michigan State Employees' Retirement System
Plan Years 2015 Through 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of the net pension liability	0.135%	0.14%	0.14%	0.13%	0.13%	0.12%
Authority's proportionate share of the net pension liability	\$8,984,874	\$8,187,194	\$7,080,730	\$7,046,740	\$6,901,557	\$6,389,681
Authority's covered payroll	\$4,098,903	\$4,420,073	\$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	219.20%	185.23%	161.52%	164.43%	167.89%	161.45%
Plan fiduciary net position as a percentage of the total pension liability	64.71%	67.22%	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.

Schedule of the Authority's Pension Contributions
Michigan State Employees' Retirement System
Fiscal Years 2015 Through 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 733,621	\$ 794,706	\$ 886,781	\$ 965,299	\$ 951,610	\$ 968,606
Contributions in relation to the statutorily required contribution	733,621	794,706	886,781	965,299	951,610	968,606
Contribution deficiency	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Authority's covered payroll	\$4,098,903	\$4,420,073	\$4,383,764	\$4,285,616	\$4,110,767	\$3,957,563
Contributions as a percentage of covered payroll	17.90%	17.98%	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.

See accompanying notes to required supplementary information - Pension liability.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

- (1) 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.
- (2) 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.
- (3) 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.
- (4) 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.
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- (5) Methods and assumptions used to determine contribution for fiscal year 2020:

Actuarial cost method:	Entry age
Amortization method:	Level dollar, closed
Remaining amortization period:	17 years
Asset valuation method:	Five-year smoothed market
Inflation:	2.5%
Salary increase:	3.5% to 12.5%, including wage inflation at 3.5%
Investment rate of return:	6.7% net of pension plan investment expenses, including inflation
Retirement age:	Experience-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 active members, 50% of the tables' rates were used for males and females.

MACKINAC BRIDGE AUTHORITY
Schedules of Required Supplementary Information - OPEB Liability
Plan Years 2018 Through 2020

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

	2020	2019	2018
Authority's proportion of the net OPEB liability	0.1390%	0.14055%	0.14025%
Authority's proportionate share of the net OPEB liability	\$10,942,382	\$11,153,097	\$11,565,225
Authority's covered payroll	\$ 4,098,903	\$ 4,420,073	\$ 4,483,764
Authority's proportionate share of the net OPEB liability as a percentage of its covered payroll	266.96%	254.72%	263.82%
Plan fiduciary net position as a percentage of the total OPEB liability	27.88%	24.41%	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.

Schedule of the Authority's OPEB Contributions
Michigan State Employees' Retirement System - Healthcare

	2020	2019	2018
Statutorily required contribution	\$870,337	\$1,047,616	\$973,801
Contributions in relation to the statutorily required contribution	870,337	1,047,616	973,801
Contribution deficiency	\$ 0	\$ 0	\$ 0
Authority's covered payroll	\$4,098,903	\$4,420,073	\$4,383,764
Contributions as a percentage of covered payroll	21.23%	23.70%	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.

See accompanying notes to required supplementary information - OPEB liability.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - OPEB LIABILITY

- (1) 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.
- (2) 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.
- (3) 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.
- (4) 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 OPEB plan is as follows:

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

- (5) Methods and assumptions used to determine contribution for fiscal year 2020:

Actuarial cost method:	Entry age
Amortization method:	Level percent of payroll, closed
Remaining amortization period:	17 years
Asset valuation method:	Market value of assets
Inflation	2.5%
Salary increases:	3.5 to 12.5%, including wage inflation at 3.5%
Investment rate of return:	6.9% per year
Retirement age:	8.3% year 1 graded to 3.5% year 10
Mortality:	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2015 using projection scale BB. For men and women, 50% of the male table rates were used.

MACKINAC BRIDGE AUTHORITY
Schedule of the Authority's Proportionate Share of Net OPEB Liability
Postemployment Life Insurance Benefit
Plan Years 2018 Through 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Authority's proportion of the net OPEB liability	0.1373%	0.1390%	0.1356%
Authority's proportionate share of the net OPEB liability	\$1,682,153	\$1,737,167	\$1,734,447
Authority's covered employee payroll	\$4,184,374	\$4,420,073	\$4,383,764
Authority's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	40.20%	39.30%	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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE



Office of the Auditor General

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Doug A. Ringler, CPA, CIA
Auditor General

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

Mr. Patrick F. Gleason, Chair
Mackinac Bridge Authority Board of Directors
and
Kim Nowack, PE, Executive Secretary
Mackinac Bridge Authority
N415 I-75
St. Ignace, Michigan

Dear Mr. Gleason and Ms. Nowack:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Mackinac Bridge Authority, a discretely presented component unit of the State of Michigan, as of and for the fiscal year ended September 30, 2020 and the related notes to the basic financial statements and have issued our report thereon dated March 12, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic 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 entity's basic 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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, as described in Finding #1, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic 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 financial statements. 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*.

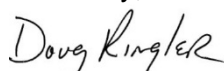
Mackinac Bridge Authority's Response to Finding

The Authority's preliminary response to the finding identified in our audit is included in the body of our report. The Authority's response was not subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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

Sincerely,



Doug Ringler
Auditor General
March 12, 2021

**FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES**

FINDING #1

Financial reporting processes should be improved.

The Authority should improve its financial reporting processes, including creation of a year-end closing procedures manual, to help ensure the efficient and accurate preparation of its financial statements.

Section 18.1485 of the *Michigan Compiled Laws* requires each department to establish and maintain an internal accounting and administrative control system using generally accepted accounting principles*. It goes on to explain that the controls should include a system of practices to be followed in the performance of duties; be effective, efficient, and documented; and function as intended.

Although we issued an unmodified opinion on the Authority's financial statements, our review of the Authority's financial reporting processes disclosed that it did not always efficiently prepare drafts of the financial statements and notes and ensure that they were complete, accurate, and consistently presented. Establishing and documenting procedures for the closing process would help improve the Authority's efficiency at preparing the financial statements.

The Authority indicated that, because of staff turnover and the COVID-19* pandemic, it was not able to obtain assistance and prior year templates, notes, and workpapers from the previous chief financial officer during the transition of staff. Also, the Authority's efficiency was impacted because it relies on other agencies for certain financial information, which was not readily available, or had changed, after the December 29 reporting deadline had passed.

RECOMMENDATION

We recommend that the Authority improve its financial reporting processes, including creation of a year-end closing procedures manual.

AGENCY PRELIMINARY RESPONSE

The Authority provided us with the following response:

The Authority agrees with the recommendation.

The Authority is in the process of developing a year-end procedures manual and expects to have it completed by April 30, 2021.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

COVID-19	The infectious disease caused by the most recently discovered coronavirus. This new virus and disease were unknown before the outbreak began in Wuhan, China, in December 2019. COVID-19 is now a pandemic affecting many countries globally.
DB plan	defined benefit plan.
DC plan	defined contribution plan.
deficiency in internal control over financial reporting	The design or operation of a control that does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
FAC	final average compensation.
FDIC	Federal Deposit Insurance Corporation.
financial audit	An audit that is designed to provide reasonable assurance about whether the basic financial statements of an audited entity are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
generally accepted accounting principles (GAAP)	A technical accounting term that encompasses the conventions, rules, guidelines, and procedures necessary to define accepted accounting practice at a particular time; also cited as "accounting principles generally accepted in the United States of America."
Governmental Accounting Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
internal control	A process, effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
MacPass	A system used by the Authority for toll collection at the toll booths. The previously used MacPass card was replaced with a windshield-mounted sticker beginning in September 2019.

material misstatement	A misstatement in the basic financial statements that causes the statements to not present fairly the financial position or the changes in financial position, and, where applicable, cash flows thereof, in accordance with the applicable financial reporting framework.
material weakness in internal control over financial reporting	A deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the basic financial statements will not be prevented, or detected and corrected, on a timely basis.
modified opinion	A qualified opinion, an adverse opinion, or a disclaimer of opinion.
OPEB	other postemployment benefits.
ORS	Office of Retirement Services.
SERS	Michigan State Employees' Retirement System.
significant deficiency in internal control over financial reporting	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.
unmodified opinion	The opinion expressed by the auditor when the auditor, having obtained sufficient appropriate audit evidence, concludes that the basic financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.



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