NOTE G – LONG-TERM DEBT (Continued):

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day, or 8 hours, for each completed month of employment. Sick leave may be accumulated with a 960 hour maximum accumulation. Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for 480 hours accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

NOTE H – DEFINED BENEFIT PENSION PLAN:

General Information about the Pension Plan

Plan Description

The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided

01 – General: Open Division	2019 Valuation
Benefit Multiplier:	2.50% Multiplier (80% max)
Normal Retirement Age:	60
Vesting:	10 years
Early Retirement (Unreduced):	55/25
Early Retirement (Reduced):	50/25
	55/15
Final Average Compensation:	5 years
COLA for Future Retirees:	N/A
Employee Contributions:	4.7%
Act 88:	Yes: Adopted 11/27/1970

Employees covered by benefit terms

At the December 31, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	36
Inactive employees entitled to but not yet receiving*:	3
Active employees:	26
Total	65

*Excluding pending refunds of 1

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

Contributions

The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

The contribution rates as a percentage of payroll as December 31, 2019 is as follows:

Division	Employer Contribution	Employee Contribution
01 – General: Open Division	27.54%	4.70%

There were no contributions requirements for closed divisions.

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2020, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of December 31, 2019.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2019, rolled forward to December 31, 2020. The following actuarial assumptions were used and applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.00% in the long-term

Investment rate of return: 7.35%, net of investment expense, including inflation

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2013-2018.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-weighted Rate of Return
Global Equity	55.5%	6.15%	3.42%
Global Fixed Income	18.5%	1.26%	0.23%
Real Assets	13.5%	7.22%	0.97%
Diversifying Strategies	12.5%	5.00%	0.63%
Inflation			2.50%
Administrative fee			0.25%
	100.0%		8.00%

Discount rate

The discount rate used to measure the total pension liability is 7.6%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay 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 pension liability.

Changes in Net Pension Liability

Calculating the Net Pension Liability

	Increase (Decrease)		
Changes in Net Pension Liability	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 12/31/2019	$10,278,881	6,663,982	$3,614,899
Changes for the Year:			
Service Costs	185,028	-	185,028
Interest on Total Pension Liability	760,919	-	760,919
Changes in benefits	-	-	-
Difference between expected and actual experience	(39,023)	-	(39,023)
Changes in assumption	290,883	-	290,883
Employer Contributions	-	521,735	(521,735)
Employee Contributions	-	80,852	(80,852)
Net investment Income	-	836,510	(836,510)
Benefit payments, including employee refunds	(718,608)	(718,608)	-
Administrative expense	-	(13,286)	13,286
Other changes	(5,552)	-	(5,552)
Net Changes	473,647	707,203	(233,556)
Balances as of 12/31/2020	$10,752,528	$7,371,185	$3,381,343

Sensitivity of the Net Pension Liability to changes in the discount rate.

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.6% as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.6%) or 1% higher (8.6%) than the current rate.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

	1% Decrease (6.6%)	Current Discount Rate (7.6%)	1% Increase (8.6%)
Net Pension Liability at 12/31/2020	$3,381,343	$3,381,343	$3,381,343
Change in Net Pension Liability	1,101,109	-	(938,419)
Calculated Net Pension Liability	$4,482,452	$3,381,343	$2,442,924

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended 2020 the employer recognized pension expense of ($156,790). The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience	$9,803	$-
Difference in assumptions	218,162	-
Excess (deficit) investment returns	-	(238,770)
Total	$227,965	($238,770)

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)

Plan Year Ended December 31,	Amount
2021	($22,833)
2022	61,186
2023	72,191
2024	(73,891)
2025	(70,291)
Thereafter	22,833
Total	($10,805)

Payable to the Pension Plan

At December 31, 2020, there was a reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2020.

NOTE I – DEFERRED COMPENSATION PLAN:

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer (Alger County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE J – OTHER POST EMPLOYMENT BENEFITS:

General Information about the Other Post Employment Benefit (OPEB) Plan:

Plan Description

The Road Commission's Other Post-Employment Benefits Plan is a single employer plan established and administered by the Road Commission and can be amended at its discretion.

An eligible employee is defined as an active full-time employee who attains age 55 with 10 years of service.

Eligible employees (as defined above) receive pre-65 medical, dental, and vision coverage for five years after retirement or until age 65, whichever comes first.

Employees covered by benefit terms

At the December 31, 2020 valuation date, the following employees were covered by the benefit terms:

Active Employees		26
Vested Former Employees		-
Retirees		3
	Total	29

Contributions

The Plan was established and is being funded under the authority of the Employer's governing body and under agreements with the unions representing various classes of employees. The Plan's funding policy contribute $25,000 annually into their OPEB trust pursuant to their Corrective Action Plan in addition to paying expected plan benefits from general operating funds – pay-as-you-go. Active participants do not make contributions to pre-fund the Plan. There are no long-term contracts for contributions to the plan. The Plan has no legally required reserves.

Net OPEB Liability

The employer's Net OPEB Liability was measured as of December 31, 2020, and the total OPEB liability used to calculate the Net OPEB Liability was determined by an annual actuarial valuation as of that date.

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued):

Actuarial assumptions
The total OPEB liability was determine by an actuarial valuation as of December 31, 2020. The following actuarial assumptions were used in the measurement:

Inflation	2.50%
Salary Increases	3.00%
Investment Rate of Return	7.35% (including inflation)
20-year Aa Municipal Bond Rate	1.93% (S&P Municipal Bond 20-year High Grade Rate Index)
Mortality	2010 Public General Employees and Healthy Retirees, Headcount weighted
Improvement Scale	MP-2020

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses 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 plan's target asset allocation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Expected Money-weighted Rate of Return
Global Equity	60.0%	5.25%	3.15%
Global Fixed Income	20.0%	1.25%	0.25%
Private Assets	20.0%	7.25%	1.45%
Inflation			2.50%
	100.0%		7.35%

Discount rate
The discount rate used to measure the total OPEB liability is 7.35%. The projection of cash flows used to determine the discount rate assumed that Employer contributions will be $25,000, which is pursuant to the Plan's Corrective Action Plan, in addition to paying retiree healthcare costs from general operating funds during the funding period. Based on this assumption, the retirement plan's fiduciary net position was projected to be sufficient to make projected future benefit payments of current plan members. There is no cross-over point or depletion date. The discount rate that yields the same present value of benefits is equal to the expected Real Rate of Return, plus inflation. This discount rate is used to determine the Total OPEB Liability. As of December 31, 2020, the discount rate used to value OPEB liabilities was 7.35%.

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued):

Changes in Net OPEB Liability

Calculating the Net OPEB Liability

	Increase (Decrease)		
Changes in Net OPEB Liability	Total OPEB Liability (a)	Plan Fiduciary Net OPEB (b)	Net OPEB Liability (a)-(b)
Balances at 12/31/2019	$846,345	$69,256	$777,089
Changes for the Year:			
Service Costs	44,595	-	44,595
Interest on Total OPEB Liability	63,515	-	63,515
Changes in benefits	-	-	-
Difference between expected and actual experience	(100,880)	-	(100,880)
Changes in assumption	6,364	-	6,364
Employer Contributions	-	78,582	(78,582)
Employee Contributions	-	-	-
Net investment Income	-	9,561	(9,561)
Benefit payments, including employee refunds	(53,582)	(53,582)	-
Administrative expense	-	(125)	125
Other changes	-	-	-
Net Changes	(39,988)	34,436	(74,424)
Balances as of 12/31/2020	$806,357	$103,692	$702,665

Sensitivity of the Net OPEB Liability to changes in the discount rate

The following presents the Net OPEB Liability of the employer, calculated using the discount rate of 7.35%, as well as what the employer's Net OPEB Liability would be using a discount rate that is 1 percentage point lower (6.35%) or 1% higher (8.35%) than the current rate.

	1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
Net OPEB Liability at 12/31/2020	$702,665	$702,665	$702,665
Change in Net OPEB Liability	42,935	-	(39,724)
	$745,600	$702,665	$662,941

The following presents the Net OPEB Liability of the employer, calculated using the current healthcare cost trend rates as well as what the employer's net OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1% higher than the current trend rates.

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB Liability at 12/31/2020	$702,665	$702,665	$702,665
Change in Net OPEB Liability	(46,090)	-	51,613
	$656,575	$702,665	$754,278

NOTE J – OTHER POST EMPLOYMENT BENEFITS (Continued):

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
For the year ended December 31, 2020, the employer recognized OPEB expense of ($19,582). The employer reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Difference in experience	$-	($135,168)
Difference in assumptions	-	(144,903)
Excess (deficit) investment returns	-	(5,810)
Total	$-	($285,881)

Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future OPEB Expenses)	
Plan Year Ended December 31,	Amount
2021	($43,691)
2022	(43,691)
2023	(43,689)
2024	(42,831)
2025	(42,030)
Thereafter	(69,949)
Total	($285,881)

Payable to OPEB Plan
At December 31, 2020, the Road Commission reported a payable of $0 for the outstanding amount of contributions to the OPEB plan required for the year ended December 31, 2020.

NOTE K – CONTINGENCIES:

The Road Commission has determined that, as a potentially responsible party, it is likely that it has incurred a liability for environmental remediation costs resulting from ground contamination at their old facility. Although, no claim against the Road Commission has yet been asserted, it is expected that such a claim will be brought against the Road Commission in the future.

Grants – The Road Commission has received significant financial assistance from state and federal agencies in the form of various grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Road Commission. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Road Commission at December 31, 2020.