NOTE F – LONG-TERM DEBT (Continued):

Truck Loan

In December 2020, a loan was issued to the Road Commission for the purchase of five trucks. The loan was originally issued for $325,974 at 3.3100% per annum, with 28 consecutive payments due monthly.

Komatsu Loader Lease

The Road Commission entered into an operating lease with Komatsu Financial in December of 2020 for the use of a loader. The agreement was originally for $208,364 at 3.250% per annum, with 52 consecutive payments due monthly.

Komatsu Excavator Lease

The Road Commission entered into an operating lease with Komatsu Financial in December of 2020 for the use of an excavator. The agreement was originally for $180,521 at 3.250% per annum, with 53 consecutive payments due monthly.

Maturities on long-term obligations are as follows:

Governmental Activities			
Maturity Year	Principal	Interest	Total
2023	$200,602	$7,217	$207,819
2024	90,912	2,971	93,883
2025	42,307	368	42,675
Total	$333,821	$10,556	$344,377

Compensated Absences – Vacation Benefits

Prior to February 1, 1981, employees with vacation time will be credited to the employee and it may be used at the employee's discretion. Beginning February 1, 1985, employees may carry forward 40 hours of vacation per year, which must be used by the end of the next calendar year. Vacation pay is calculated and paid at the current rate of pay.

Compensated Absences – Sick Leave Benefit Policies

Employees hired before February 1, 1993, may accumulate a maximum of 168 days of sick leave. Upon death or retirement, employees are paid for a maximum of 132 days at their current rate of pay. Employees hired on or after February 1, 1993, may accumulate a maximum of 600 hours of sick leave. Upon death or retirement, after 20 years of service employees are paid for 50% of their accumulated sick hours at their current rate of pay.

NOTE G – ADVANCES:

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. The State also advances amounts for routine maintenance as part of the agreement.

NOTE H – DEFINED BENEFIT 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

	2021 Valuation	
	01 – Gnrl: Closed to new hires, linked to Division 10	10 – After 2/04: Open Division, linked to Division 01
Benefit Multiplier:	2.25% Multiplier (80% max)	2.25% Multiplier (80% max)
Normal Retirement Age:	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/25	55/25
Early Retirement (Reduced):	50/25	50/25
	55/15	55/15
Final Average Compensation:	5 years	5 years
COLA for Future Retirees:	N/A	N/A
Employee Contributions:	0%	0%
Act 88:	Yes: Adopted 11/20/1970	Yes: Adopted 11/20/1970

Employees covered by benefit terms.

At the December 31, 2021, valuation date, the following employees were covered by the benefit terms:

Active employees:	70
Inactive employees entitled to but not yet receiving*:	4
Inactive employees or beneficiaries currently receiving benefits:	86
Total	160

*Excluding pending refunds of 3

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 of December 31, 2021, is as follows:

	Employer Contribution*	Employee Contribution
Division 01 – Gnrl; closed	$79,525	0.00%
Division 10 - After 2/04; open	10.64%	2.00%

*For open divisions, a percentage of pay contribution is shown. For closed divisions, a monthly dollar contribution is shown.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

Net Pension Liability

The employer's Net Pension Liability was measured as of December 31, 2022, and the total pension liability used to calculate the Net Pension Liability was determined by an annual actuarial valuation as of December 31, 2021.

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2021, rolled forward to December 31, 2022. The following actuarial assumptions were used and applied to all periods included in the measurement:

Inflation:	2.5%
Salary Increases:	3.00% plus merit and longevity; 3.00% in the long-term
Investment Rate of Return	7.00%, net of investment expenses and administrative expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 3.0% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%.

Mortality rates used were based on a version of Pub-2010 and fully generational MP-2019.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2014-2018.

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 weighing 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-Term Expected Gross Rate of Return	Inflation Assumption	Long-Term Expected Real Rate of Return
Global Equity	60.0%	7.00%	4.20%	2.50%	2.70%
Global Fixed Income	20.0%	4.50%	0.90%	2.50%	0.40%
Private Investments	20.0%	9.50%	1.90%	2.50%	1.40%
Total	100.0%		7.00%		4.50%

Discount rate

The discount rate used to measure the total pension liability is 7.25%. The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because, for GASB 68 purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

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.

<u>Changes in Net Pension Liability</u>

Calculating the Net Pension Liability

Changes in Net Pension Liability	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances as of 12/31/2021	$22,759,349	$12,529,579	$10,229,770
Changes for the Year:			
Service Costs	397,357	-	397,357
Interest on Total Pension Liability	1,610,296	-	1,610,296
Changes in benefits	-	-	-
Difference between expected and actual experience	(83,579)	-	(83,579)
Changes in assumption	853,527	-	853,527
Employer Contributions	-	1,299,983	(1,299,983)
Employee Contributions	-	64,432	(64,432)
Net investment Income	-	(1,297,802)	1,297,802
Benefit payments, including. employee refunds	(1,494,108)	(1,494,108)	-
Administrative expense	-	(23,082)	23,082
Other changes	58,075	-	58,075
Net Changes	1,341,568	(1,450,577)	2,792,145
Balances as of 12/31/2022	$24,100,917	$11,079,002	$13,021,915

<u>Sensitivity of the Net Pension Liability to changes in the discount rate.</u>

The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.25% as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower (6.25%) or 1% higher (8.25%) than the current rate.

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability at 12/31/2022	$13,021,915	$13,021,915	$13,021,915
Change in Net Pension Liability	2,738,762	-	(2,312,370)
Calculated Net Pension Liability	$15,760,677	$13,021,915	$10,709,545

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.

NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

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

For the year ended 2022 the employer recognized pension expense of $655,468. 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	$-	($103,596)
Difference in assumptions	1,042,792	-
Excess (deficit) investment returns	931,693	-
Total	1,974,485	($103,596)

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
2023	$513,652
2024	446,892
2025	476,440
2026	443,905
2027	-
Thereafter	-
Total	$1,870,889

Payable to the Pension Plan

At December 31, 2022, 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, 2022.

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 (Chippewa 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. The total amount contributed to the Plan for the year ended December 31, 2022, was $238,843.