NOTE 12 - PENSION PLANS:

Defined Benefit Plan:

Plan Description -

The Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan (the "Plan") created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. MERS issues a publicly-available financial report that includes financial statements and required supplementary information which may be obtained at www.mersofmich.com by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917, or by calling (800) 767-6377.

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension and pension expense have been determined on the same basis as they are reported by the Plan. The Plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value or estimated fair value. Road Commission contributions to the Plan are recognized when due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with benefit terms.

Member and Employer Contributions -

The Road Commission pays the actuarially determined amount, which for the year ended December 31, 2018 was a flat rate of $68,263 per month for Division 01, a flat rate of $2,185 per month for Division 12, and a flat rate of $9,561 per month for Division 13. Division 01 was closed on April 1, 2013 to new-hires, transfers, and rehires. Effective March 12, 2016, Division 12 was closed to new-hires, transfers, and rehires. Effective October 16, 2014, Division 13 was closed to new-hires, transfers, and rehires. Employee contributions of 2.50% were required for the period January 1, 2018 - March 31, 2018 for Divisions 01 and 12. Employee contributions of 3.00% were required for Divisions 01 and 12 for the period April 1, 2018 - December 31, 2018 and Division 13 for the entire fiscal year.

The membership at December 31, 2017 was comprised of 30 active participants, 63 retirees and beneficiaries, and 6 other vested inactive participants.

NOTE 12 - PENSION PLANS - (cont'd):

Benefits Provided -

Retirement benefits are calculated based on division as 2.0% to 2.5% of the employee's final three-year (3) average salary times the employee's years of service. Employees are vested after 10 years of service. Normal retirement age is 60. Early retirement with a reduced benefit is at 50 with 25 years of service or at 55 with 15 years of service. Early retirement with an unreduced benefit is at 55 with 25 years of services for Divisions 01 and 13, and 55 with 30 years of service for Division 12. Employees are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability benefits are determined in the same manner as retirement benefits but are payable immediately. An employee who leaves service may withdraw his or her contributions, plus accumulated interest. Benefit terms provide for annual cost-of-living adjustments to each employee's retirement benefit subsequent to the employee's retirement date of 2.00% to 2.50%.

Benefit terms, within the parameters established by MERS, are established and amended by authority of the Board of County Road Commissioners.

Net Pension Liability -

The net pension liability of the Road Commission has been measured as of December 31, 2018 as determined by an actuarial valuation performed as of December 31, 2017 and is composed of the following:

	Total Pension Liability	Plan's Net Position	Net Pension Liability
Beginning balance	$ 20,804,660	$ 9,782,185	$ 11,022,475
Service cost	158,362	-	158,362
Changes in benefits	(5,410)	-	(5,410)
Interest on total pension liability	1,615,690	-	1,615,690
Difference between expected and actual experience	(200,316)	-	(200,316)
Net investment income	-	(381,225)	381,225
Contributions from employer	-	1,187,505	(1,187,505)
Contributions from employees	-	38,095	(38,095)
Benefit payments	(1,375,435)	(1,375,435)	-
Administrative costs	-	(18,822)	18,822
Other	(14,050)	-	(14,050)
Ending balance	$ 20,983,501	$ 9,232,303	$ 11,751,198

Plan fiduciary net position as a percentage of the total pension liability 44.00%

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions -

At December 31, 2018, the Road Commission had a net pension liability of $11,751,198. The net pension liability was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017.

NOTE 12 - PENSION PLANS - (cont'd):

For the year ended December 31, 2018, the Road Commission recognized pension expense related to the Plan of $1,583,355. At December 31, 2018, the Road Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on Plan investments	$ 714,874	$ -
Difference between expected and actual experience	70,731	133,544
	$ 785,605	$ 133,544

The amounts of deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

2019	$ 260,667
2020	19,265
2021	140,719
2022	231,410
	$ 652,061

Actuarial Assumptions -

The total pension liability was determined by an actuarial valuation as of December 31, 2017, which used updated procedures to roll forward the estimated liability to December 31, 2018. The valuation used the following actuarial assumptions based on the most recent study of Plan experience covering the period from December 31, 2008 through December 31, 2013.

Salary Increases - 3.00%

Inflation - 2.50%

Investment Rate of Return - 7.75%

Mortality Rates - 50% Male and 50% Female blend of the following tables: 1) the RP-2014 Healthy Annuitant Mortality Tables with rates multiplied by 105%, 2) the RP-2014 Employee Mortality Tables, and 3) the RP-2014 Juvenile Mortality Tables. For disabled retirees, the RP-2014 Disabled Retiree Mortality Tables using a 50% Male and 50% Female blend were used.

Discount Rate - The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Road Commission contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

NOTE 12 - PENSION PLANS - (cont'd):

Projected Cash Flows -

Based on the assumptions above, the 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 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 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 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 weighing 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 as of December 31, 2018 for each major asset class included in the Plan's target asset allocation, as disclosed in the investment footnote of the Plan, are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	57.5 %	5.0 %
Global Fixed Income	20.0	2.2
Real Assets	12.5	4.2
Diversifying Strategies	10.0	6.6
	100.0 %	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate -

The following presents the net pension liability of the Road Commission, calculated using the discount rate of 8.00 percent, as well as what the Road Commission's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net pension liability	$ 14,008,768	$ 11,751,198	$ 9,833,401

NOTE 12 - PENSION PLANS - (cont'd):

Defined Contribution Plans:

The Road Commission has established a Defined Contribution Plan through MERS. The Defined Contribution Plan is open to the Engineer/Manager, new-hires, rehires, and transfers of current Defined Benefit Plan Division #13 for non-union hired employees hired after October 16, 2014. The Defined Contribution Plan requires the Road Commission to contribute 5% of a participant's compensation. The Road Commission will also contribute a 1:1 match for employee contributions up to 3%. Vesting for the Defined Contribution Plan is as follows: 0% for the first two years of service, and then increases by 25% each service year thereafter. The Defined Contribution Plan fully vests after 6 years of service. Employer contributions related to the Defined Contribution Plan for the year ended December 31, 2018 were $31,742.

Deferred Compensation Plan:

Effective July 18, 2013, the Road Commission now offers a MERS 457 Supplemental Retirement Program Plan, created in accordance with the Internal Revenue Code Section 457, which covers all full-time employees and commissioners, as well as the Engineer/Manager. The assets of the deferred compensation plan are held in trust for the exclusive benefit of the participants and their beneficiaries. MERS as the custodian 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 Road Commission for purposes of providing direction to MERS from time to time for the investment of 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, Section 457 plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS:

Plan Description -

In addition to the pension benefits described in Note 12, the Road Commission provides postemployment benefits through a single-employer defined benefit healthcare plan (the "OPEB Plan") to eligible employees who retire from the Road Commission. Management of the OPEB Plan is provided by the Board of County Road Commissioners, which consists of five members. The OPEB Plan is audited within the scope of the audit of the basic financial statements; separate audited financial statements are not issued.

Summary of Significant Accounting Policies -

For purposes of measuring net OPEB liability, deferred outflows of resources, deferred inflows of resources, OPEB expense, the fiduciary net position of the OPEB Plan, and additions to/deductions from fiduciary net position have been determined as the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are recorded at fair value.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Benefits Provided -

Benefits provided by the OPEB Plan consist of healthcare, dental, and prescription drug coverage for the retiree and spouse. Benefit eligibility is based on the employees' union agreement as noted below:

Bargaining Unit	Dates Hired	Retirement Age/ Years of Service	Benefits Received
Local 1325	Pre March 12, 2003	55/10	100% of premiums
	March 12, 2003 - June 30, 2009	55/10	50-100% of premiums depending on years of service*
	July 1, 2009 - April 1, 2013	55/25 or 60/10	50-100% of premiums depending on years of service*
	April 2, 2013 - March 12, 2016	55/30 or 60/20	50-100% of premiums depending on years of service*
	Post-March 12, 2016	55/30 or 60/20	50-100% of premiums depending on years of service**
Supervisors	Pre-March 11, 2003	60/10	100% of premiums
	March 12, 2003 - May 31, 2013	60/10	50-100% of premiums depending on years of service*
	Post-May 31, 2013	55/30 or 60/20	50-100% of premiums depending on years of service*
Non Union	Pre-August 1, 2009	55/10	100% of premiums
	August 1, 2009 - December 31, 2016	55/25 or 60/10	50-100% of premiums depending on years of service*

* Benefits received cease when the retiree and spouse become Medicare eligible.

** Benefits received are for the retiree only. Benefits cease when the retiree becomes Medicare eligible.

Non-union employees hired on or after January 1, 2017 are not eligible to receive benefits.

Plan Membership -

At December 31, 2018, OPEB Plan membership consisted of 38 active members and 51 inactive members or beneficiaries receiving benefits.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Contributions and Funding Policy -

The OPEB Plan provides for periodic employer contributions. The annual required contribution was $843,881 for the year ended December 31, 2018. During the year ended December 31, 2018, employer contributions of $767,931 were made, including $279,397 to the Employee Health Care Benefits Trust Fund.

The OPEB Plan was established by, and is being funded under, the authority of the Road Commission and under agreements with unions representing various classes of employees. The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). However, the Road Commission has made contributions to advance-fund these benefits, as determined by the Board of County Road Commissioners through budget resolutions. Administrative costs of the OPEB Plan are paid for by the General Fund.

Investment Policy -

The OPEB Plan's policy in regards to the invested assets is established and may be amended by the Board of County Road Commissioners by a majority of its members. The policy does not address a target allocation or long-term expected rate of return for invested assets.

Net OPEB Liability of the Road Commission -

The net OPEB liability of the Road Commission has been measured as of December 31, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by valuation as of that date and is composed of the following:

	Total OPEB Liability	OPEB Plan's Net Position	Net OPEB Liability
Beginning Balance	$ 12,380,885	$ 640,135	$ 11,740,750
Service cost	215,951	-	215,951
Interest on net OPEB liability	864,680	-	864,680
Net investment income	-	(38,097)	38,097
Expected and actual differences	(145,760)	-	(145,760)
Contributions from employer	-	767,931	(767,931)
Benefit payments	(488,534)	(488,534)	-
Administrative expenses	-	(3,712)	3,712
Ending Balance	$ 12,827,222	$ 877,723	$ 11,949,499

OPEB Plan fiduciary net position as a percentage of total OPEB liability	6.84%

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

OPEB Expense and Deferred Inflows of Resources Related to OPEB -

For the year ended December 31, 2018, the Road Commission recognized OPEB expense of $1,019,244 for the OPEB Plan in the government-wide financial statements. At December 31, 2018, the Road Commission reported deferred outflows/inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB Plan investments	$ 74,044	$ -
Difference between expected and actual experience	-	116,608
	$ 74,044	$ 116,608

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

2019	$(10,641)
2020	(10,641)
2021	(10,641)
2022	(10,641)
	$(42,564)

Methods and Assumptions -

The total OPEB liability was determined by a valuation done at December 31, 2017 using the alternative measurement method, rolled forward to December 31, 2018. The assumptions used in the valuation were based on the results of an experience study from January 1, 2012 - December 31, 2018. The valuation used the following assumptions included in the measurement:

Retirement Age of Active Employees - Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55 or 60, depending on the applicable collective bargaining units benefit provisions.

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics. The United States Life Tables for Males and for Females were obtained from the Center for Disease Control (www.cdc.gov). The most recent data are the life tables for males and females, 2014 version (Tables 2 and 3 from the National Vital Statistics Report, Vol. 66, No. 4 dated August 14, 2017).

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

Turnover - Nongroup-specific age-based turnover data was used as the basis for assigning active members a probability of remaining employment until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare Cost Trend Rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. The rate was estimated at 3.4 percent for 2019, fluctuating between 4.4 percent and 4.9 percent before decreasing to 4.8 percent in 2024 and for the years thereafter.

Health Insurance Premiums - 2018 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation Rate - The expected long-term inflation assumption of 2.0 percent was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2010 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* for an intermediate growth scenario.

Payroll Growth Rate - The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Discount Rate - A discount rate of 5 percent was used based on the expected rate of return on assets.

Projected Cash Flows -

Based on the assumptions above, 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 OPEB Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following presents the net OPEB liability of the Road Commission, calculated using the discount rate of 5.00%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (4.00%) or one-percentage-point higher (6.00%) than the current rate.

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Net OPEB Liability	$ 13,457,025	$ 11,949,499	$ 10,656,258

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS - (cont'd):

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

The following presents the net OPEB liability of the Road Commission, calculated using the healthcare cost trend rate of 3.40%, increasing to 4.90% before decreasing to 4.80%, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one-percentage-point lower or one-percentage-point higher than the current rate.

	1% Decrease (2.40-3.90%)	Current Healthcare Cost Trend Rate (3.40-4.90%)	1% Increase (4.40-5.90%)
Net OPEB Liability	$ 10,562,525	$ 11,949,499	$ 13,572,247

NOTE 14 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Cheboygan County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

The Road Commission participates in a number of federal and state-assisted grant programs, which are subject to compliance audits. The periodic program compliance monitoring of many of the federal and state programs have not yet been conducted or completed. Accordingly, the Road Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Road Commission expects such amounts, if any, to be immaterial.

As part of its trunkline maintenance agreement with the State, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 15 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool (the "Pool") established pursuant to the laws of the State, which authorizes contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.