

# Bay County Employees' Retirement System Defined Benefit Plan

Year Ended  
December 31,  
2019

Financial  
Statements

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

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## Independent Auditors' Report

June 30, 2020

Bay County Board of Commissioners  
and the Bay County Retirement Board of Trustees  
Bay County, Michigan

We have audited the accompanying statement of fiduciary net position of the *Bay County Employees' Retirement System Defined Benefit Plan* (the "Plan"), a fiduciary component unit of Bay County, Michigan, as of December 31, 2019, and the related statement of changes in fiduciary net position for the year then ended and the related notes to the financial statements, which collectively comprise the Plan'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.

### *Independent Auditors' 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 auditors' 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 Plan'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 Plan'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 above present fairly, in all material respects, the fiduciary net position of the Plan, as of December 31, 2019 and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of investment returns, as listed in the table of contents, be presented to supplement the 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2020, on our consideration of the Plan'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

*Rehmann Lobson LLC*

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Management's Discussion and Analysis

This section of the annual report of the Bay County Employees' Retirement System Defined Benefit Plan (the "Plan") presents management's discussion and analysis of the Plan's financial performance during the plan year that ended on December 31, 2019. Please read it in conjunction with the Plan's financial statements, which follow this section.

### Financial Highlights

- The Plan's total net position increased during fiscal 2019 by approximately \$56.6 million. Assets are held in trust and restricted to meet future benefit payments.
- The Plan's benefits are funded by contributions from Bay County (the "County") and its component units, Bay Arenac Behavioral Health ("BABH") and active members, as well as by the investment income earned on the Plan's assets.
- The change in the fair value of investments was favorable for the current year. The fair value of investments had a net appreciation of approximately \$67.3 million for the year ended December 31, 2019 compared with net depreciation of approximately \$24.8 million for the year ended December 31, 2018.

### Overview of the Financial Statements

This annual report contains the Plan's financial statements, which consist of the statement of fiduciary net position and statement of changes in fiduciary net position. These financial statements report information about the Plan as a whole using accounting methods similar to those used by private-sector pension plans. The statement of fiduciary net position includes all of the Plan's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year increases and decreases in the Plan's net position are accounted for in the statement of changes in fiduciary net position, regardless of when cash is received or paid.

These financial statements report the Plan's net position and how it has changed. Net position represents the difference between the Plan's assets and deferred outflows of resources and liabilities and deferred inflows of resources, and it represents one way to measure the Plan's financial health, or position. Over time, increases or decreases in the Plan's net position are an indicator of whether its financial health is improving or deteriorating.

The notes to the financial statements explain some of the information in the financial statements and provide more detailed data.

## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Management's Discussion and Analysis

#### Financial Analysis of the Plan as a Whole

Below are the condensed statements of fiduciary net position as of December 31, 2019 and 2018:

	Net Position	
	2019	2018
Assets		
Investments	\$ 376,860,771	\$ 319,585,630
Other assets	<u>2,675,391</u>	<u>2,885,924</u>
Total assets	<u>379,536,162</u>	<u>322,471,554</u>
Deferred outflows of resources	31,802	8,214
Liabilities	1,796,422	1,240,531
Deferred inflows of resources	<u>12,993</u>	<u>42,601</u>
Net position restricted for pension benefits	<u>\$ 377,758,549</u>	<u>\$ 321,196,636</u>

The Plan's total assets as of December 31, 2019 were \$379.5 million and were mostly comprised of investments. Total assets increased by \$57.0 million, or 17.7%, from the prior year. The increase is primarily attributable to favorable market conditions at December 31, 2019, resulting in a favorable change in fair value of in investments.

Total net position restricted for benefits at December 31, 2019 increased by \$56.6 million from 2018. The increase is primarily attributable to the increase in the Plan's assets as discussed above.

## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Management's Discussion and Analysis

Below are the condensed statements of changes in fiduciary net position for the years ended December 31, 2019 and 2018:

	Change in Net Position	
	2019	2018
<b>Additions</b>		
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	\$ 67,294,127	\$ (24,777,818)
Other income (net of investment expenses)	4,462,676	3,698,845
Contributions	4,233,061	4,668,323
Other revenue	2,468	11,736
<b>Total additions (net of investment loss)</b>	<b>75,992,332</b>	<b>(16,398,914)</b>
<b>Deductions</b>		
Benefit payments and refunds of contributions	19,106,691	18,483,518
Administrative expenses	323,728	416,267
<b>Total deductions</b>	<b>19,430,419</b>	<b>18,899,785</b>
<b>Change in net position</b>	<b>56,561,913</b>	<b>(35,298,699)</b>
<b>Net position</b>		
Beginning of year	321,196,636	356,495,335
End of year	<u>\$ 377,758,549</u>	<u>\$ 321,196,636</u>

#### Change in Fiduciary Net Position

The reserves needed to finance pension benefits are accumulated through the collection of employee and employer contributions and through earnings on investments. The increase in net position of \$56.6 million is the result of a net appreciation in fair value of investments of \$67.3 million compared to the net depreciated value of \$24.8 million in 2018. Also, an increase of \$0.6 million in interest and dividends in comparison to the 2018 interest and dividends.

#### Economic Factors

The financial markets for both international and domestic equity for the 4th quarter of 2018 had considerable losses. The first quarter for Fiscal Year 2019 showed a strong rebound in the markets and the Plan was able to start the recovery process. Management continued to review its money managers and opted to remove Barings during the 2019 year and added Principal Enhancers for a real estate position. These manager adjustments have made the Plan a more stable plan and continues to balance the asset allocation of the total portfolio. The portfolio had overall returns of almost 23.5% for the year which outperformed the benchmarks on a combined basis. Management believes the Plan will continue to meet its pension benefit obligations and will strive to adapt to the changing market conditions and investment strategies to maximize investment returns to the Plan.

Subsequent to December 31, 2019, the world experienced the beginning of the global COVID-19 pandemic requiring great changes in activity of the public and of governmental agencies. It is in the early stages, so we cannot quantify the effect this will have on our previous expectations. We do, however, expect that it will have a material effect on our assumptions and our operations. The County, through several years of exceptional fiscal management and a focus on preparing for the future, is comfortable that we will be able to strongly face any challenges that may arise from this new normal.

## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Management's Discussion and Analysis

#### Financial Contact

This financial report is designed to present its users with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the funds it holds. If you have any questions about this report or need additional financial information, contact Bay County Finance Department, Bay County Building - 7th Floor, 515 Center Avenue, Bay City, Michigan 48708.

## BASIC FINANCIAL STATEMENTS

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Statement of Fiduciary Net Position

December 31, 2019

### Assets

#### Investments at fair value:

Equities	\$ 283,133,519
Fixed income	87,466,378
Money market	6,260,874
Total investments	<u>376,860,771</u>

#### Receivables:

Interest and dividends	674,226
Contributions	320,990
Total receivables	<u>995,216</u>

#### Other assets:

Prepaid items and other assets	1,660,020
Net pension asset	20,155
Total other assets	<u>1,680,175</u>

### Total assets

379,536,162

### Deferred outflows of resources

Deferred pension amounts	<u>31,802</u>
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### Liabilities

Accounts payable	1,105,331
Accrued liabilities	688,206
Accrued vacation and sick pay	2,885
Total liabilities	<u>1,796,422</u>

### Total liabilities

1,796,422

### Deferred inflows of resources

Deferred pension amounts	<u>12,993</u>
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### Net position

Restricted for pension benefits	<u>\$ 377,758,549</u>
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The accompanying notes are an integral part of these basic financial statements.

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2019

### Additions

#### Investment income:

Net appreciation in fair value of investments	\$ 67,294,127
Interest and dividends	6,361,282
Total investment income	<u>73,655,409</u>
Investment expenses	(1,898,606)
Net investment income	<u>71,756,803</u>

#### Contributions:

Employer	2,064,909
Plan members	2,168,152
Total contributions	<u>4,233,061</u>

Other revenue	<u>2,468</u>
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Total additions	<u>75,992,332</u>
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### Deductions

Participant benefits (including refunds of contributions)	19,106,691
Administrative expenses	323,728

Total deductions	<u>19,430,419</u>
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Change in net position	56,561,913
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Net position, beginning of year	<u>321,196,636</u>
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Net position, end of year	<u><u>\$ 377,758,549</u></u>
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The accompanying notes are an integral part of these basic financial statements.

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Notes to Financial Statements

### 1. PLAN DESCRIPTION

*General* - The Bay County Employees' Retirement System Defined Benefit Plan (the "Plan") is an agent multiple employer defined benefit plan covering two employers, Bay County, Michigan (the "County"), which includes six divisions (General County, Sheriff's Department, Library, Department of Water and Sewer, Medical Care Facility, and Road Commission), and Bay Arenac Behavioral Health ("BABH"). The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries.

The Plan is considered a fiduciary component unit of Bay County. The County created established the Plan to provide pension benefits to retirees. The Plan meets the criteria of a fiduciary component unit because the trust is considered a legally separate entity and the County makes contributions to the Plan, which creates a burden/benefit relationship. The County also performs significant administrative duties on behalf of the Plan.

The Retirement Board consists of nine individual trustees whether elected or appointed in accordance with the County Retirement Ordinance. Four members (active employees) are elected by active members of the retirement system. Each elected position is voted on by the following four groups 1) Bay County Road Commission and Department of Water and Sewer 2) Bay County Medical Care Facility 3) Sheriff's Department and Library 4) General County and Bay Arenac Behavioral Health. The remaining trustees are the chairperson of the Bay County Board of Commissioners ex-officio or his/her designee, the chairperson of the Ways and Means Committee of the Bay County Board of Commissioners or his/her designee, the Treasurer of Bay County, the chairperson of the Bay County Board of Human Services ex-officio or his/her designee, and the chairperson of the Bay Arenac Behavioral Health Board of Directors or his/her designee. All elected terms are for three years.

*Plan Membership* - The Plan's membership consists of the following at December 31, 2019:

Active participants:	
Retirees and beneficiaries	852
Inactive, nonretired members	60
Active members	<u>936</u>
	<u><u>1,848</u></u>

*Contributions* - The provisions of the Plan require the participating employers/divisions to contribute at an actuarially determined rate. Rates for the year ended December 31, 2019, determined through an actuarial valuation performed at December 31, 2018, were as follows for each employer/division:

General County	0.00%
Sheriff's Department	0.00%
Department of Water and Sewer	14.22%
Medical Care Facility	0.57%
Road Commission	18.66%
Bay Arenac Behavioral Health	7.53%

The Library portion of the plan is closed to new hires as of January 1, 2012 and therefore, the annual employer/division contribution is fixed at \$10,430 for the year ended December 31, 2019.

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Notes to Financial Statements

Contribution requirements for Plan members are established and may be amended through the collective bargaining process after approval by the benefit granting Board for each group. Currently, certain divisions have elected to pay all or some of the Plan member contributions. Plan member average contribution rates for the year ended December 31, 2019, were as follows by employer/division:

General County	4.05%
Sheriff's Department	4.85%
Department of Water and Sewer	3.92%
Medical Care Facility	3.86%
Road Commission	4.57%
Bay Arenac Behavioral Health	4.00%

The Library portion of the plan is closed to new hires as of January 1, 2012 and therefore, the annual plan member contribution is fixed at \$41,753 for the year ended December 31, 2019.

*Retirement Benefits* - The Plan benefit provisions and contribution requirements of plan members and the participating employers are established and may be amended by the Retirement Board, who also administers the Plan, in accordance with County policies, union contracts, and plan provisions. Benefits are paid monthly over the member or survivor's lifetime calculated as total service times final average compensation (highest 5 years) times a percent ranging from 1.50% to 2.80%, with a maximum of 75% of final average compensation.

*Death and Disability Benefits* - The Plan also provides non-duty death and disability benefits to members after 10 years of credited service. The 10 year service provision is waived for duty disability and death benefits.

Retirement eligibility varies depending on employer, division, and date of hire. Requirements for normal retirement range from age 55 to 62 with 8 years of service to 30 years of service, regardless of age. Early retirement options are also available at age 55 with 8 to 10 years of service or 25 years of service, regardless of age. The detailed summary annual report (SAR) is distributed annually to all Bay County Retirement System members.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Accounting* - The Plan's financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Pension Ordinance. Administrative expenses are financed through investment earnings.

*Valuation of Investments and Income Recognition* - Investments are stated at fair value. Short-term investments are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed debt quotations are provided by a national brokerage pricing service. Real estate values are determined on the basis of comparable yields available in the marketplace. Investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the Retirement Board, with the assistance of a valuation service.

Dividend income is recognized based on the ex-dividend date, and interest income is recognized on the accrual basis as earned. All realized gains and losses on investments are recognized at the point of sale and are included in investment income. Purchases and sales of investments are recorded as of the trade date, which is the date when the transaction is initiated.

## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Notes to Financial Statements

*Investment Allocation Policy* - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Retirement Board. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment process that the Board deems appropriate. The Board established the following allocation range for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions:

Asset Class	Target Allocation	Allocation Range
U.S. large cap equity	31%	15%-45%
U.S. mid cap equity	12%	6%-18%
U.S. small cap equity	5%	2%-10%
International equity	20%	10%-20%
REIT	2%	0%-8%
Real estate	5%	0%-8%
U.S. core fixed income	21%	10%-40%
Convertible securities	4%	1%-8%
Total investments	100%	

*Investments and Securities Lending* - A contract approved by the Bay County Board of Commissioners permits the Plan to lend its securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Plan's custodial bank manages the securities lending program and receives securities or cash as collateral. The collateral securities cannot be pledged or sold by the Plan unless the borrower defaults. Collateral securities and cash are initially pledged at 102 percent of the fair value of United States securities lent and 105 percent of the fair value of non-United States securities, and may not fall below 100 percent during the term of the loan. The Plan's securities on loan as of December 31, 2019, were as follows.

	Fair Value of Underlying Securities	Cash Collateral Received (USD)
Domestic equities	\$ 175,740	\$ 180,385
Corporate bonds	581,271	593,970
Total	\$ 757,011	\$ 581,271

*Prepays and Other Assets* - The Plan's third party administrator pulls the next month's benefit payments in the preceding month. Therefore, the prepaids and other assets consist mainly of benefit payments that will be paid out to the retirees in January of the next fiscal year.

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Notes to Financial Statements

### 3. INVESTMENTS

The authority for the purchase and sale of investments rests with the Retirement Board. The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the Plan to invest in domestic and foreign stocks, government securities, corporate securities, mortgages, real estate and various other investment instruments, subject to certain limitations and investment policy established by the Retirement Board. The Investment Act incorporates the prudent person rule and requires investment fiduciaries to act solely in the interest of the Plan's participants and beneficiaries.

The Plan's investments are primarily held in a bank-administered trust fund. Following is a summary of the Plan's investments as of December 31, 2019:

#### Investments at fair value

##### Equities:

Domestic equities	\$ 280,245,661
Real estate	2,887,858
Total equities	<u>283,133,519</u>

##### Fixed income:

Corporate bonds	59,044,173
Government bonds	28,422,205
Total fixed income	<u>87,466,378</u>

Money market	<u>6,260,874</u>
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Total investments	<u><u>\$ 376,860,771</u></u>
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*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy emphasizes appropriate risk/return parameters and compliance with Public Act 314, and gives discretionary authority to its investment managers as opposed to establishing specific credit rating benchmarks.

As of December 31, 2019, Moody's ratings for the Plan's investments were as follows:

	Investment Type			
	Equities	Fixed Income	Money Market	Total
Aaa	\$ -	\$ 13,980,893	\$ -	\$ 13,980,893
Aa	-	2,554,657	-	2,554,657
A	-	16,259,751	-	16,259,751
Baa	505,851	22,729,191	-	23,235,042
Ba	-	2,848,869	-	2,848,869
B	-	184,518	-	184,518
Not rated	282,627,668	28,908,499	6,260,874	317,797,041
Total	<u>\$ 283,133,519</u>	<u>\$ 87,466,378</u>	<u>\$ 6,260,874</u>	<u>\$ 376,860,771</u>

## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Notes to Financial Statements

*Custodial Credit Risk* - For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Plan's investment policy requires that securities be held in trust by a third-party institution in the Plan's name or its nominee custodian's name or in bearer form. Although uninsured and unregistered, the Plan's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the Plan's name. Short-term investments in money market funds and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

*Concentration of Credit Risk* - Concentration of credit risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. The Plan's investment policy requires that no manager will hold more than 5% of its portion of the total fund in any single company and no more than 5% may be held in any single common stock. At December 31, 2019 the Plan did not hold any investments that exceeded this threshold.

*Interest Rate Risk* - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan's investment policy does not discuss the maximum maturity for any single fixed income security or the weighted average portfolio maturity.

As of December 31, 2019, investment maturities for the Plan's investments were as follows:

	Investment Type			
	Equities	Fixed Income	Money Market	Total
Less than 1 year	\$ -	\$ 1,143,180	\$ -	\$ 1,143,180
1 - 5 years	-	28,188,136	-	28,188,136
6 - 10 years	-	20,755,820	-	20,755,820
More than 10 years	-	32,427,392	-	32,427,392
No maturity	283,133,519	4,951,850	6,260,874	294,346,243
<b>Total</b>	<b>\$ 283,133,519</b>	<b>\$ 87,466,378</b>	<b>\$ 6,260,874</b>	<b>\$ 376,860,771</b>

*Rate of Return* - For the year ended December 31, 2019, the annual money-weighted rate of return on Plan's investments, net of Plan investment expenses, was 23.04%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts that are actually invested.

*Fair Value Measurement* - The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The County had the following recurring fair value measurements as of year end:

Investment Type	Level 1	Level 2	Level 3	Total Fair Value
Domestic equities	\$ 179,475,706	\$ -	\$ 100,769,955	\$ 280,245,661
Real estate	2,887,858	-	-	2,887,858
Corporate bonds	-	59,044,173	-	59,044,173
Government bonds	-	28,422,205	-	28,422,205
	<u>\$ 182,363,564</u>	<u>\$ 87,466,378</u>	<u>\$ 100,769,955</u>	<u>370,599,897</u>
Investments carried at amortized cost - Money market funds				<u>6,260,874</u>
<b>Total</b>				<u><b>\$ 376,860,771</b></u>

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Notes to Financial Statements

The following is a description of the valuation methodology used for assets recorded at fair value. There have been no changes from the prior year in the methodologies used.

Certain domestic equities and real estate classified as Level 1 of the fair value hierarchy are valued based on quoted market prices in active markets.

Corporate bonds and government bonds are classified as Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Certain domestic equities are classified as Level 3. Level 3 investments are financial assets that are considered the most illiquid and the hardest to value. Since they are not traded frequently it is difficult to get an accurate market price. These asset values are received from our individual investment managers fund statements and are priced based on calculations and assumptions from quoted prices of similar assets.

## 4. SUBSEQUENT EVENT

In March 2020, the World Health Organization declared the novel coronavirus outbreak (COVID-19) to be a global pandemic. The extent of the ultimate impact of the pandemic on the government's operational and financial performance will depend on various developments, including the duration and spread of the outbreak and its impact on employees, vendors, and taxpayers, all of which cannot be reasonably predicted at this time. In addition, it may place additional demands on the government for providing emergency services to its citizens. While management reasonably expects the COVID-19 outbreak to negatively impact the government's financial position, changes in financial position, and, where applicable, the timing and amounts of cash flows, the related financial consequences and duration are highly uncertain.



## REQUIRED SUPPLEMENTARY INFORMATION

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Required Supplementary Information

### Schedule of Investment Returns

Fiscal Year Ending December 31,	Annual Return *
2014	7.89%
2015	0.77%
2016	7.70%
2017	19.40%
2018	-5.75%
2019	23.04%

\* Annual money-weighted rate of return, net of investment expenses

Note: GASB 67 was implemented in fiscal year 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

## INTERNAL CONTROL AND COMPLIANCE

**Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

June 30, 2020

Bay County Board of Commissioners  
and the Bay County Retirement Board of Trustees  
Bay County, Michigan

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 accompanying statement of fiduciary net position of the *Bay County Employees' Retirement System Defined Benefit Plan* (the "Plan"), a fiduciary component unit of Bay County, Michigan, as of December 31, 2019, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated June 30, 2020.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## 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 Plan'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.

*Rehmann Loborn LLC*

## Independent Auditors' Communication with Those Charged with Governance

June 30, 2020

Bay County Board of Commissioners  
and the Bay County Retirement Board of Trustees  
Bay County, Michigan

We have audited the financial statements of the **Bay County Employees' Retirement System Defined Benefit Plan** (the "Plan") as of and for the year ended December 31, 2019, and have issued our report thereon dated June 30, 2020. Professional standards require that we advise you of the following matters relating to our audit.

### Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated January 29, 2020, our responsibility, as described by professional standards, is to form and express opinion about whether the financial statements that have been prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Plan solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated June 30, 2020.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on May 4, 2020.

### **Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

### **Qualitative Aspects of the Plan's Significant Accounting Practices**

#### *Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Plan is included in Note 1 to the financial statements.

There have been no initial selections of accounting policies and no changes in significant accounting policies or their application during the year.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

#### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the fair value of certain investments (primarily those that are not traded on a national or international exchange) is based on a variety of factors including the purchase price, changes in the financial condition and prospects of the issuer calculations or the total enterprise value using discounted cash flow projections, trading comparable of securities of comparable companies engages in similar businesses, estimates of liquidation value, the existence of restrictions on transferability, prices received in recent significant placements of securities of the same issuer, and other analytical data relating to the investment.
- The assumptions used in the actuarial valuations of the pension plan are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

*Financial Statement Disclosures*

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to management's estimate of the valuation of investment securities at fair value.

**Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. We did not identify any misstatements during our audit.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Plan's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management, which are included in Attachment A to this letter.

**Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the Plan, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Plan's auditors.

This information is intended solely for the use of the governing body and management of the **Bay County Employees' Retirement System Defined Benefit Plan** and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Lobson LLC*

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Attachment A - Management Representations

For the December 31, 2019 Audit

The following pages contain the written representations that we requested from management.



**BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM  
BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION**

BAY COUNTY BUILDING  
515 CENTER AVENUE  
BAY CITY, MICHIGAN 48708-5128

Jan Histed  
Secretary

**BOARD OF TRUSTEES**  
Steven Gray, Chairperson  
Kristal Gonzales  
Richard Gromaski  
Thomas M. Herek  
Jon Morse  
Matthew Pett  
Thomas Ryder  
Sandy Shutt  
Shawna Walraven

June 30, 2020

Rehmann Robson  
5800 Gratiot Road, Suite 201  
Saginaw, Michigan 48638

**ADMINISTRATIVE STAFF**  
Katie Zanotti  
Tracy Cederquist  
(989) 895-4043  
FAX (989) 895-2076

This representation letter is provided in connection with your audit of the financial statements of *Bay County Employees' Retirement System Defined Benefit Plan*, as of and for the year ended December 31, 2019, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations of the *Bay County Employees' Retirement System Defined Benefit Plan* in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 30, 2020:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated January 29, 2020, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We acknowledge our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. With regard to items reported at fair value:
  - a. The underlying assumptions are reasonable, and they appropriately reflect management's intent and ability to carry out its stated courses of action.
  - b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
  - c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
  - d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
9. All funds and activities are properly classified.
10. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
11. All components of net position and fund balance classifications have been properly reported.
12. Deposit and investment risks have been properly and fully disclosed.
13. All required supplementary information is measured and presented within the prescribed guidelines.
14. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
15. In response to the novel coronavirus outbreak (COVID-19), subsequent to year end, the Governor issued various temporary Executive Orders that, among other stipulations, effectively prohibit in-person work activities for most businesses and industries including non-essential government services, having the effect of suspending or severely curtailing operations. As a result, the COVID-19 outbreak is disrupting and affecting the Plan's normal activities. The extent of the ultimate impact of the pandemic on the Plan's financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on the stock market, which cannot be reasonably predicted at this time. While management reasonably expects the COVID-19 outbreak to negatively impact the Plan's financial position and, changes in financial position, the related financial consequences and duration are highly uncertain.

#### Information Provided

16. We have provided you with:
  - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
  - b. Additional information that you have requested from us for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
17. All transactions have been recorded in the accounting records and are reflected in the financial statements.
18. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
19. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management;
  - b. Employees who have significant roles in internal control; or

- c. Others where the fraud could have a material effect on the financial statements.
20. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.
  21. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
  22. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
  23. The government has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
  24. We have disclosed to you all guarantees, whether written or oral, under which the government is contingently liable.
  25. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
  26. There are no:
    - a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    - b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
    - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62.
  27. The government has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
  28. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
  29. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

**Required Supplementary Information**

30. With respect to the required supplementary information accompanying the financial statements:
- a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
  - b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
  - c. The methods of measurement or presentation have not changed from those used in the prior period.
  - d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.



Chairman of the Board



Finance Officer