

Bay County Employees' Retirement  
System  
Defined Benefit Plan

Year Ended  
December 31,  
2024

Financial  
Statements

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# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Table of Contents

### Page

<b>Independent Auditors' Report</b>	1
<b>Management's Discussion and Analysis</b>	5
<b>Basic Financial Statements</b>	
Statement of Fiduciary Net Position	10
Statement of Changes in Fiduciary Net Position	11
Notes to Financial Statements	12
<b>Required Supplementary Information</b>	
Schedule of Investment Returns	22
<b>Internal Control and Compliance</b>	
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 <i>Government Auditing Standards</i>	25
Schedule of Findings and Responses	27
Summary Schedule of Prior Audit Findings	28



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## INDEPENDENT AUDITORS' REPORT

June 27, 2025

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

### Report on the Audit of the Financial Statements

#### *Opinion*

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, 2024, 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan, as of December 31, 2024 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Independent Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Independent Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

### ***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 27, 2025, 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.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

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## **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, 2024. 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 2024 by approximately \$24.7 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, and Bay Arenac Behavioral Health ("BABH") and active members, as well as by the investment income earned on the Plan's assets.
- The fair value of investments had a net appreciation of approximately \$35.7 million for the year ended December 31, 2024 compared to a net appreciation of approximately \$38.9 million for the year ended December 31, 2023.

### 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, 2024 and 2023:

	Net Position	
	2024	2023
<b>Assets</b>		
Investments	\$ 426,625,276	\$ 399,777,691
Other assets	1,158,385	2,912,997
<b>Total assets</b>	<u>427,783,661</u>	<u>402,690,688</u>
<b>Deferred outflows of resources</b>	47,103	62,580
<b>Liabilities</b>	1,076,286	652,029
<b>Deferred inflows of resources</b>	<u>6,319</u>	<u>8,062</u>
<b>Net position restricted for pension benefits</b>	<u>\$ 426,748,159</u>	<u>\$ 402,093,177</u>

Below are the condensed statements of changes in fiduciary net position for the years ended December 31, 2024 and 2023:

	Change in Net Position	
	2024	2023
<b>Additions</b>		
Investment income:		
Net appreciation in fair value of investments	\$ 35,734,157	\$ 38,868,669
Other income (net of investment expenses)	8,268,456	6,110,441
Contributions	4,589,039	4,027,447
Other revenue	26,043	11,979
<b>Total additions</b>	<u>48,617,695</u>	<u>49,018,536</u>
<b>Deductions</b>		
Benefit payments and refunds of contributions	23,436,622	22,662,409
Administrative expenses	526,091	473,481
<b>Total deductions</b>	<u>23,962,713</u>	<u>23,135,890</u>
<b>Change in net position</b>	24,654,982	25,882,646
<b>Net position</b>		
Beginning of year	<u>402,093,177</u>	<u>376,210,531</u>
<b>End of year</b>	<u>\$ 426,748,159</u>	<u>\$ 402,093,177</u>

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Management's Discussion and Analysis

The Plan's total assets as of December 31, 2024 were \$427.8 million and were mostly comprised of investments. Total assets increased by \$25.1 million, or 6.2%, from the prior year, and total net position restricted for benefits at year end increased by \$24.7 million from 2023. The reserves needed to finance pension benefits are accumulated through the collection of employee and employer contributions and through earnings on investments. The increase is primarily attributable to the market incline during the year.

### Economic Factors

The US Federal Reserve held rates steady during the first and second quarters of the year before shifting its stance and cutting the fed funds rate by 0.50% in the third quarter. Two additional cuts in the fourth quarter brought the year-end rate to a range of 4.25%-4.50%. Domestic equities showed positive returns throughout most of the year, with only the second quarter showing mixed performance. International stocks showed robust growth in the beginning of the year and continued delivering positive results before faltering in the fourth quarter, thanks in part to a strengthening U.S. Dollar. Ongoing military conflicts in Ukraine and the Middle East continue to act as headwinds for international market results, along with global economic uncertainty. Growth in the U. S. labor market continued steadily throughout the year. The Retirement portfolio saw overall returns of 11.43% for the year, increasing market value by slightly over \$45 million.

The Fed held rates steady for the first quarter of 2025. Domestic equity results were broadly lower for the quarter due to increased uncertainty surrounding geopolitics and domestic policy under the new administration. Most international stocks advanced during the quarter due to a declining U.S. dollar and concern regarding U.S. economic growth. Management believes the pension plan will continue to meet its obligations in the coming year. Staff will continue to work alongside the plan's investment consultant to adapt to the ever-changing market conditions and maximize returns. The County, through several years of exceptional fiscal management, is confident that it will be able to navigate any unsteadiness in the market and face any challenges that may arise.

### 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, 2024

#### Assets

Investments at fair value:

Equities	\$ 338,648,395
Fixed income	87,879,201
Money market	97,680
Total investments	<u>426,625,276</u>

Receivables:

Interest and dividends	1,014,540
Contributions	83,193
Total receivables	<u>1,097,733</u>

Other assets:

Prepaid items and other assets	647
Net pension asset	60,005
Total other assets	<u>60,652</u>

#### Total assets

427,783,661

#### Deferred outflows of resources

Deferred pension amounts	<u>47,103</u>
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#### Liabilities

Accounts payable	1,029,471
Accrued liabilities	46,815

#### Total liabilities

1,076,286

#### Deferred inflows of resources

Deferred pension amounts	<u>6,319</u>
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#### Net position

Restricted for pension benefits	<u>\$ 426,748,159</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, 2024

#### Additions

Investment income:	
Net appreciation in fair value of investments	\$ 35,734,157
Interest and dividends	10,208,322
Total investment income	45,942,479
Investment expenses	(1,939,866)
Net investment income	44,002,613
Contributions:	
Employer	2,124,036
Plan members	2,465,003
Total contributions	4,589,039
Other revenue	26,043
<b>Total additions</b>	<b>48,617,695</b>
Deductions	
Participant benefits (including refunds of contributions)	23,436,622
Administrative expenses	526,091
<b>Total deductions</b>	<b>23,962,713</b>
Change in net position	24,654,982
Net position, beginning of year	402,093,177
<b>Net position, end of year</b>	<b>\$ 426,748,159</b>

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 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 Bay County Retirement System Board of Trustees 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, 2024:

Retirees and beneficiaries	1,112
Inactive, nonretired members	88
Active members	<u>1,103</u>
	<u><u>2,303</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, 2024, determined through an actuarial valuation performed at December 31, 2022 rolled forward to December 31, 2023, were as follows for each employer/division:

General County	0.00%
Sheriff's Department	0.00%
Department of Water and Sewer	14.31%
Medical Care Facility	0.00%
Road Commission	11.15%
Bay Arenac Behavioral Health	4.35%



## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Notes to Financial Statements

The Library portion of the plan is closed to new hires as of January 1, 2012 and therefore, there was no annual employer/division contribution for the year ended December 31, 2024.

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, 2024, were as follows by employer/division:

General County	4.02%
Sheriff's Department	4.37%
Department of Water and Sewer	3.96%
Medical Care Facility	3.54%
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 \$34,802 for the year ended December 31, 2024.

*Retirement Benefits* - The Plan benefit provisions and contribution requirements of plan members and the participating employers are established and may be amended by the Bay County Retirement System Board of Trustees, 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.

# BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

## Notes to Financial Statements

### 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 Bay County Retirement System Board of Trustees, 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.

*Investment Allocation Policy* - The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Bay County Retirement System Board of Trustees. 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
Domestic equity	48.0%	7.5%
International equity	20.0%	8.5%
U.S. fixed income	25.0%	2.5%
Real estate	7.0%	4.5%
	<u>100%</u>	

# 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 Bay County Retirement System Board of Trustees. 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 Bay County Retirement System Board of Trustees. 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, 2024:

#### Investments at fair value

Equities:	
Domestic equities	\$ 248,118,373
LTD partnerships	32,513,891
Mutual funds	7,537,482
Commingled funds	50,478,649
Total equities	<u>338,648,395</u>
Fixed income:	
Domestic corporate bonds**	46,575,776
Foreign corporate bonds**	9,717,794
Government bonds**	14,235,139
U.S. treasury securities	17,350,492
Total fixed income	<u>87,879,201</u>
Money market funds	<u>97,680</u>
<b>Total investments</b>	<u><u>\$ 426,625,276</u></u>

\*\* The following investments, at fair value, include call options:

Domestic corporate bonds	\$ 17,361,435
Foreign corporate bonds	4,620,238
Government bonds	361,587

## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Notes to Financial Statements

*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, 2024, Moody's ratings for the Plan's investments were as follows:

	Investment Type			
	Equities	Fixed Income	Money Market Funds	Total
Aaa	\$ -	\$ 25,544,385	\$ -	\$ 25,544,385
Aa	-	5,153,257	-	5,153,257
A	-	14,448,156	-	14,448,156
Baa	-	12,396,586	-	12,396,586
Ba	-	1,944,520	-	1,944,520
Not rated	338,648,395	28,392,297	97,680	367,138,372
<b>Total</b>	<b>\$ 338,648,395</b>	<b>\$ 87,879,201</b>	<b>\$ 97,680</b>	<b>\$ 426,625,276</b>

*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, 2024, the Plan did not hold any investments that exceeded this threshold.

*Foreign Currency Risk.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. Any investments noted as foreign are investments in U.S. subsidiaries of foreign entities and are traded in U.S. dollars, therefore the investments are not subject to foreign currency risk.

*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.

## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Notes to Financial Statements

As of December 31, 2024, investment maturities for the Plan's investments were as follows:

	Investment Type			
	Equities	Fixed Income	Money Market Funds	Total
Less than 1 year	\$ -	\$ 3,303,293	\$ -	\$ 3,303,293
1 - 5 years	-	33,715,425	-	33,715,425
6 - 10 years	-	18,694,987	-	18,694,987
More than 10 years	-	30,840,575	-	30,840,575
No maturity	338,648,395	1,324,921	97,680	340,070,996
<b>Total</b>	<b>\$ 338,648,395</b>	<b>\$ 87,879,201</b>	<b>\$ 97,680</b>	<b>\$ 426,625,276</b>

*Rate of Return.* For the year ended December 31, 2024, the annual money-weighted rate of return on Plan's investments, net of Plan investment expenses, was 10.51%. 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 Plan had the following recurring fair value measurements as of year end:

Investment Type	Level 1	Level 2	Level 3	Total Fair Value
Domestic equities	\$ 248,118,373	\$ -	\$ -	\$ 248,118,373
Mutual funds	7,537,482	-	-	7,537,482
Domestic corporate bonds	-	46,575,776	-	46,575,776
Foreign corporate bonds	-	9,717,794	-	9,717,794
Government bonds	2,935,907	11,299,232	-	14,235,139
U.S. treasury securities	17,350,492	-	-	17,350,492
	<u>\$ 275,942,254</u>	<u>\$ 67,592,802</u>	<u>\$ -</u>	343,535,056

Investments carried at amortized cost:

Money market funds 97,680

Investments carried at NAV:

LTD partnerships 32,513,891

Commingled funds 50,478,649

**Total** \$ 426,625,276

## 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.

Domestic equities, mutual funds, certain government bonds, and treasury securities are classified as Level 1 of the fair value hierarchy are valued based on quoted market prices in active markets.

Domestic and foreign corporate bonds and certain 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.

The valuation method for investments measured at net asset value per share (or its equivalent) is presented in the table below.

#### *Investments in Entities that Calculate Net Asset Value per Share*

The Plan holds shares or interests in investment companies where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

At December 31, 2024, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Carrying Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
LTD partnerships	\$ 32,513,891	-	N/A	N/A
Commingled funds	50,478,649	-	N/A	N/A

#### **LTD partnerships**

PRISA is an open-end commingled United States core real estate fund which invests in operating and substantially leased institutional quality real estate properties located mainly in major markets. The fund primarily (>75%) invests in office, retail, industrial and multifamily properties and secondarily (<25%) invests in manufactured housing, single family rental, student housing, life science and medical office property types. Most assets are acquired on a direct basis.

## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Notes to Financial Statements

Principal is an open-end commingled United States core-plus real estate fund which invests primarily in operating and substantially leased institutional quality real estate properties located 20 to 30 markets. The fund will only invest in office, retail, industrial, and multi-family properties. Most assets are acquired on a direct basis. Joint ventures with qualified partners are considered if the fund has majority equity economic interest and appropriate liquidity and control mechanisms.

#### Commingled funds

The MFS International account is comprised of domestic (U.S.) securities consisting of US common stocks. MFS may also purchase foreign securities, including American Deposit Receipts (ADRs), traded on a U.S. exchange with a limit of 10% at the time of purchase. The total investments in foreign securities traded on U.S. exchanges or OTC market should never exceed 20% of the total portfolio, at market, under management.

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## **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 *
2015	0.77%
2016	7.70%
2017	19.40%
2018	-5.75%
2019	23.04%
2020	15.86%
2021	15.85%
2022	-16.16%
2023	12.85%
2024	10.51%

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

## **INTERNAL CONTROL AND COMPLIANCE**

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**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 27, 2025

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, 2024, 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, and have issued our report thereon dated June 27, 2025.

**Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

#### **Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **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.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

## BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

### Schedule of Findings and Responses

For the Year Ended December 31, 2024

None noted.

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**BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN**

**Summary Schedule of Prior Audit Findings**

For the Year Ended December 31, 2024

None noted.

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