

Bay County Voluntary Employees'  
Beneficiary Association  
Retiree Healthcare Plan

Year Ended  
December 31,  
2023

Financial  
Statements

**Rehmann**

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

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## INDEPENDENT AUDITORS' REPORT

June 28, 2024

Bay County Board of Commissioners  
and the Bay County Voluntary Employees' Beneficiary Association 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 Voluntary Employees' Beneficiary Association Retiree Healthcare Plan** (the "Plan"), a fiduciary component unit of Bay County, Michigan, as of December 31, 2023, 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, 2023 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 28, 2024, 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.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Management's Discussion and Analysis

This section of the annual report of the Bay County Voluntary Employees' Beneficiary Association Retiree Healthcare Plan (the "Plan") presents management's discussion and analysis of the Plan's financial performance during the plan year that ended on December 31, 2023. 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 2023 by approximately \$12.4 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"), as well as by the investment income earned on the Plan's assets.
- The fair value of investments had a net appreciation of approximately \$8.8 million for the year ended December 31, 2023 compared to a net depreciation of approximately \$16.4 million for the year ended December 31, 2022.

### 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 and liabilities. 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 liabilities, 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 VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE 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, 2023 and 2022:

	Net Position	
	2023	2022
<b>Assets</b>		
Investments	\$ 93,163,212	\$ 80,640,089
Other assets	298,136	311,199
<b>Total assets</b>	<u>93,461,348</u>	<u>80,951,288</u>
<b>Liabilities</b>	<u>126,023</u>	<u>32,176</u>
<b>Net position restricted for retiree healthcare benefits</b>	<u>\$ 93,335,325</u>	<u>\$ 80,919,112</u>

Below are the condensed statements of changes in fiduciary net position for the years ended December 31, 2023 and 2022:

	Change in Net Position	
	2023	2022
<b>Additions</b>		
Investment income (loss):		
Net appreciation (depreciation) in fair value of investments	\$ 8,849,301	\$ (16,417,959)
Other income (net of investment expenses)	2,004,857	3,084,481
Contributions	6,038,878	6,241,036
<b>Total additions (net of investment loss)</b>	<u>16,893,036</u>	<u>(7,092,442)</u>
<b>Deductions</b>		
Benefit payments and refunds of contributions	4,364,007	4,634,631
Administrative expenses	112,816	11,516
<b>Total deductions</b>	<u>4,476,823</u>	<u>4,646,147</u>
<b>Change in net position</b>	12,416,213	(11,738,589)
<b>Net position</b>		
Beginning of year	<u>80,919,112</u>	<u>92,657,701</u>
<b>End of year</b>	<u>\$ 93,335,325</u>	<u>\$ 80,919,112</u>



# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Management's Discussion and Analysis

The Plan's total assets as of December 31, 2023 were \$93.5 million and were mostly comprised of investments. Total assets increased by \$12.5 million, or 15.5%, from the prior year, and total net position restricted for benefits at year-end increased by \$12.4 million from 2022. The reserves needed to finance retiree healthcare benefits are accumulated through the collection of employer contributions and through earnings on investments. The increase is primarily attributable to market incline during the year.

### Economic Factors

The US Federal Reserve Bank continued to increase interest rates throughout the year to combat inflation, while the global banking sector came under duress in the first quarter due to the second and third-largest regional bank failures in U.S. history. Both U.S. and international equity markets spent the year recovering from a disappointing 2022. The U.S. labor market saw muted growth in 2023, with unemployment holding at 3.7%, only slightly above the closing 2022 rate of 3.5%. Geopolitical risk around the globe continues to be a factor for global growth and stability. A new conflict in the Middle East threatens performance in the region, while the Ukraine conflict is still ongoing. In 2023, the various employer groups made employer contributions in an effort to maintain the state requirement of being 40% funded. The VEBA portfolio saw overall returns of 13.67% for the year, increasing market value by roughly \$13 million.

In the first quarter of 2024, the Fed held rates steady, but domestic equities rallied at the prospect of the Fed cutting rates later in the year. The year opened with strong results in both domestic and international equity markets, along with some growth in the U.S. labor market. Management believes the plan will continue to meet its OPEB obligations in the coming year, and will utilize key investment strategies to adapt to the ever-changing market conditions so as to maximize returns. The County, through several years of exceptional fiscal management, is confident that we 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 VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Statement of Fiduciary Net Position

December 31, 2023

### Assets

Investments at fair value:

Equities	\$ 72,532,826
Fixed income	19,940,368
Money market	690,018
<b>Total investments</b>	<u>93,163,212</u>

Receivables:

Interest and dividends	102,980
Contributions	195,134
<b>Total receivables</b>	<u>298,114</u>

Other current assets:

Prepays and other assets	<u>22</u>
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### Total assets

93,461,348

### Liabilities

Accounts payable	72,022
Accrued liabilities	54,001

### Total liabilities

126,023

### Net position

Restricted for retiree healthcare benefits	<u><u>\$ 93,335,325</u></u>
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The accompanying notes are an integral part of these basic financial statements.

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2023

### Additions

Investment income:

Net appreciation in fair value of investments	\$ 8,849,301
Interest and dividends	2,246,946
Total investment income	<u>11,096,247</u>
Investment expenses	<u>(242,089)</u>
Net investment income	10,854,158

Contributions:

Employer contributions	<u>6,038,878</u>
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### Total additions

16,893,036

### Deductions

Participant benefits (including refunds of contributions)	4,364,007
Administrative expenses	<u>112,816</u>

### Total deductions

4,476,823

Change in net position

12,416,213

Net position, beginning of year

80,919,112

**Net position, end of year**

\$ 93,335,325

The accompanying notes are an integral part of these basic financial statements.

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Notes to Financial Statements

### 1. PLAN DESCRIPTION

*General* - The *Bay County Voluntary Employees' Beneficiary Association Retiree Healthcare Plan* (the "Plan") is an agent multiple employer retiree healthcare plan through a Voluntary Employees Beneficiary Association ("VEBA") trust. The Plan is a defined benefit public retiree healthcare plan established effective October 1, 2001 and covers 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 purpose of the Plan is to provide medical and healthcare benefits for the welfare of certain retirees of the County and BABH and the spouses and dependents of such retirees who are participants in the Bay County Employees' Retirement System. Benefits under the Plan are provided pursuant to a group contract issued by Blue Cross Blue Shield of Michigan. As of 2012, the Plan is closed with the exception of the Department of Water and Sewer and the Library.

The Plan is considered a fiduciary component unit of Bay County. The County created the Plan to provide healthcare to qualified 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 Voluntary Employees' Beneficiary Association 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, 2023:

Retirees and beneficiaries	721
Active members	<u>951</u>
	<u><u>1,672</u></u>

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Notes to Financial Statements

*Contributions* - The Plan benefit provisions and contribution requirements of plan members and the County and BABH are established and may be amended by the employer, who also administers the plan, in accordance with County policies, union contracts, and plan provisions. The County's current policy is to fund the plan on a pay-as-you-go basis with additional amounts contributed into the VEBA trust fund. Retirees make no contribution directly to the County for their share of the premiums. The employer contribution rates for the year ended December 31, 2023 determined through an actuarial valuation performed at December 31, 2021, were as follows for each employer/division:

General county	\$ 1,720,420
Sheriff's department	549,944
Department of water and sewer	432,680
Medical care facility	1,903,381
Road commission	2,928,053
Library	-
BABH	-

Contributions to the Plan for the year-ended December 31, 2023, were \$6,038,878. \$4,364,007 was contributed on a pay-as-you-go basis and the remainder were contributions into the trust for future benefit payments.

*Retirement Benefits* - The postemployment benefits are financed on a pay-as-you-go basis, with an additional amount contributed into the Trust fund. The amount of expenditures for the benefits is recognized during the period incurred. The premiums are paid by the County and BABH. Employees become eligible for postemployment benefits if they reach normal retirement age while working for the County or BABH. Benefits for employees begin the first month following their date of retirement. For Bay County general and sheriff groups, employees hired after January 1, 2012 are not eligible for this postemployment benefit. For Bay County Medical Care Facility, employees hired after January 15, 2010 are not eligible for this postemployment benefit. For the Road Commission, employees hired after January 1, 2016 are not eligible for this postemployment benefit. The Library is open to full-time employees and the Department of Water and Sewer and BABH are open to all employees.

The insurance for retirees is paid for by the employer, with required copayments, if any, determined annually. The benefits provided vary on department and hire date, as follows:

Division	Benefit
General County and Sheriff's Department	85% employer-paid for retiree, 50% employer-paid for spouse
Road Commission	Retiree contributions are the same as active member contributions

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Notes to Financial Statements

### Department of Water and Sewer

Division	Hire Date	Benefit
28	Before 1/1/2003 Between 1/1/2003 - 1/1/2008	100% employer-paid for retiree, 100% employer-paid for spouse 10-14 service years, 50% employer paid for retiree, 0% employer-paid for spouse; 15-19 service years, 100% employer-paid for retiree, 0% employer-paid for spouse; 20+ service years, 100% employer-paid for retiree, 100% employer-paid for spouse
29	Before 1/1/2007 Between 6/1/2007 and 1/1/2017	100% employer-paid for retiree, 100% employer-paid for spouse 10-14 service years, 25% employer paid for retiree, 0% employer-paid for spouse; 15-19 service years, 50% employer-paid for retiree, 0% employer-paid for spouse; 20-24 service years, 75% employer-paid for retiree, 0% employer-paid for spouse; 20+ service years, 100% employer-paid for retiree, 0% employer-paid for spouse

### Bay County Medical Care Facility

Hire Date	Benefit
Before 1/15/2010	100% employer-paid for retiree, 100% employer-paid for spouse
After 1/15/2010	Coverage is equivalent to that provided to active employees, including co-pays, deductibles, premium sharing, etc. The retiree share of the premiums is negotiated with the Union each year, in order to remain under the cost share caps stipulated by PA 152.

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Notes to Financial Statements

### Library

Age/Service	Benefit
Retired age 55 with 30+ years of service	50% employer-paid for retiree, 0% employer-paid for spouse
Retired between age 60 and 65	50% employer-paid for retiree, 0% employer-paid for spouse
Retired after age 65	100% employer-paid for retiree, 0% employer-paid for spouse

### BABH

Age/Service	Benefit
Below 20 years of service	Each credit year of service equates to a 5% employer paid health insurance premium with the employee being vested after 8 years of service
20+ years of service	100% employer-paid for retiree, 0% employer-paid for spouse

## 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. Retiree 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 OPEB 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 Voluntary Employees' Beneficiary Association 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.



# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE 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 Bay County Voluntary Employees' Beneficiary Association 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	49.0%	7.5%
International equity	21.0%	8.5%
U.S. fixed income	23.0%	2.5%
Real estate	7.0%	4.5%
<b>Total investments</b>	<b>100%</b>	

*Investments and Securities Lending* - A contract approved by the Bay County Voluntary Employees' Beneficiary Association Board of Trustees 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, 2023, were as follows.

	Fair Value of Underlying Securities	Cash Collateral Received (USD)
Domestic corporate bonds	\$ 37,550	\$ 38,318

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Notes to Financial Statements

### 3. INVESTMENTS

The authority for the purchase and sale of investments rests with the Bay County Voluntary Employees' Beneficiary Association 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 Voluntary Employees' Beneficiary Association 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, 2023:

#### Investments at fair value

##### Equities:

Domestic equities	\$ 14,748,975
LTD partnerships	6,371,606
Mutual funds	50,636,222
Foreign equities	523,656
American depository receipts	252,367
<b>Total equities</b>	<u>72,532,826</u>

##### Fixed income:

Domestic corporate bonds**	3,927,769
Foreign corporate bonds**	494,487
Commingled funds**	6,819,079
U.S. treasury securities**	900,267
Government bonds**	7,798,766
<b>Total fixed income</b>	<u>19,940,368</u>

Money market funds	<u>690,018</u>
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<b>Total investments</b>	<u><u>\$ 93,163,212</u></u>
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\*\* The following investments, at fair value, include call options:

Domestic corporate bonds	\$ 3,927,769
Foreign corporate bonds	494,487
Commingled funds	6,819,079
U.S. treasury securities	900,267
Government bonds	7,798,766

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE 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, 2023, Moody's ratings for the Plan's investments were as follows:

	Investment Type			Total
	Equities	Fixed Income	Money Market Funds	
Aaa	\$ -	\$ 4,096,297	\$ -	\$ 4,096,297
Aa	-	671,372	-	671,372
A	-	1,757,409	-	1,757,409
Baa	-	1,040,422	-	1,040,422
Not rated	72,532,826	12,374,868	690,018	85,597,712
<b>Total</b>	<b>\$ 72,532,826</b>	<b>\$ 19,940,368</b>	<b>\$ 690,018</b>	<b>\$ 93,163,212</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, 2023 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 VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

### Notes to Financial Statements

As of December 31, 2023, investment maturities for the Plan's investments were as follows:

	Investment Type			
	Equities	Fixed Income	Money Market Fund	Total
Less than 1 year	\$ -	\$ 7,846	\$ -	\$ 7,846
1 - 5 years	-	1,335,633	-	1,335,633
6 - 10 years	-	2,842,905	-	2,842,905
More than 10 years	-	8,697,740	-	8,697,740
No maturity	72,532,826	7,056,244	690,018	80,279,088
<b>Total</b>	<b>\$ 72,532,826</b>	<b>\$ 19,940,368</b>	<b>\$ 690,018</b>	<b>\$ 93,163,212</b>

*Rate of Return.* For the year ended December 31, 2023, the annual money-weighted rate of return on Plan's investments, net of Plan investment expenses, was 13.39%. 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	\$ 14,748,975	\$ -	\$ -	\$ 14,748,975
Mutual funds	50,636,222	-	-	50,636,222
Foreign equities	523,656	-	-	523,656
American depository receipts	252,367	-	-	252,367
Domestic corporate bonds	-	3,927,769	-	3,927,769
Foreign corporate bonds	-	494,487	-	494,487
U.S. treasury securities	900,267	-	-	900,267
Government bonds	-	7,798,766	-	7,798,766
	<b>\$ 67,061,487</b>	<b>\$ 12,221,022</b>	<b>\$ -</b>	<b>79,282,509</b>

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Notes to Financial Statements

Investments carried at amortized cost:	
Money market funds	690,018
Investments carried at NAV:	
LTD partnerships	6,371,606
Commingled funds	<u>6,819,079</u>
<b>Total</b>	<b><u>\$ 93,163,212</u></b>

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 and foreign equities, mutual funds, american depository receipts, 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 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, 2023, 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	\$ 6,371,606	-	N/A	N/A
Commingled funds	6,819,079	-	N/A	N/A

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## ■ Notes to Financial Statements

The Loomis Investment Grade Corporate Bond Trust for the VEBA account may include shares in mutual funds, closed-end funds, hedge funds, and commodity pools, public companies, private companies with at least \$50 million in shareholders' equity, and cash which may include bank deposits, certificates of deposit, bankers acceptances, and the net cash surrender value of an insurance policy.

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.



**REQUIRED SUPPLEMENTARY INFORMATION**

# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Required Supplementary Information

### Schedule of Investment Returns

Fiscal Year Ending December 31,	Annual Return *
2017	12.79%
2018	-4.64%
2019	20.36%
2020	17.19%
2021	12.70%
2022	-14.31%
2023	13.39%

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

Note: GASB 74 was implemented in fiscal year 2017. 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 28, 2024

Bay County Board of Commissioners  
and the Bay County Voluntary Employees' Beneficiary Association 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 Voluntary Employees' Beneficiary Association Retiree Healthcare Plan** (the "Plan"), a fiduciary component unit of Bay County, Michigan, as of December 31, 2023, 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 28, 2024.

### **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 "Rehmann Johnson LLC". The signature is written in a cursive, flowing style.

**BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE  
HEALTHCARE PLAN**

**Schedule of Findings and Responses**

For the Year Ended December 31, 2023

None noted.



# BAY COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION RETIREE HEALTHCARE PLAN

## Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2022

None noted.

