

Bay County Employees' Retirement System

Defined Benefit Plan

Year Ended
December 31,
2017

Financial
Statements

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

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INDEPENDENT AUDITORS' REPORT

June 29, 2018

To the 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 pension trust fund of Bay County, Michigan, as of December 31, 2017, 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. 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, 2017 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.

Reporting Entity

As discussed in Note 1, the financial statements present only the Bay County Employees' Retirement System Defined Benefit Plan pension trust fund and do not purport to, and do not, present fairly the financial position of Bay County, Michigan as of December 31, 2017 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restatement

As discussed in Note 4 to the financial statements, the beginning net position was restated to correct an error made in a prior year in the actuarial split of assets held in the Bay County Employees' Retirement Systems' Plan, which impact the net pension asset in the Plan's financial statements. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Bay County Employees' Retirement System Defined Benefit Plan basic financial statements. The Management's Discussion and Analysis is not a required part of the basic financial statements.

The Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on the information.

Rehmann Lobban 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, 2017. 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 2017 by approximately \$45.0 million. Assets are held in trust and restricted to meet future benefit payments.
- The Plan's benefits are funded by contributions from Bay County and its component units (the "County"), 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 \$54.2 million for the year ended December 31, 2017 compared with net appreciation of approximately \$19.0 million for the year ended December 31, 2016.

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 include 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, 2017 and 2016:

	Net Position	
	2017	2016
Assets		
Investments	\$ 354,226,571	\$ 311,580,626
Other assets	<u>2,719,668</u>	<u>1,333,568</u>
Total assets	<u>356,946,239</u>	<u>312,914,194</u>
Deferred outflows of resources	23,896	24,472
Liabilities	460,639	1,409,933
Deferred inflows of resources	<u>14,159</u>	<u>16,695</u>
Net position restricted for pension benefits	<u>\$ 356,495,337</u>	<u>\$ 311,512,038</u>

The Plan's total assets as of December 31, 2017 were \$357.0 million and were mostly comprised of investments. Total assets increased by \$44.0 million, or 14.1%, from the prior year. The increase is primarily attributable to favorable market conditions at December 31, 2017, resulting in a favorable change in fair value of investments.

Total net position restricted for benefits at December 31, 2017 increased by \$45.0 million from 2016. 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, 2017 and 2016:

	Change in Net Position	
	2017	2016
Additions		
Investment income:		
Net appreciation in fair value of investments	\$ 54,153,293	\$ 18,995,041
Other investment income (net of investment expenses)	4,273,817	3,937,871
Contributions	4,874,028	5,477,623
Total additions	<u>63,301,138</u>	<u>28,410,535</u>
Deductions		
Benefit payments and refunds of contributions	17,764,716	17,222,061
Administrative expenses	553,123	635,727
Total deductions	<u>18,317,839</u>	<u>17,857,788</u>
Change in net position	44,983,299	10,552,747
Net position		
Beginning of year, as restated	<u>311,512,038</u>	<u>300,959,291</u>
End of year	<u>\$ 356,495,337</u>	<u>\$ 311,512,038</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 \$45.0 million is the result of a net appreciation in fair value of investments of \$35.2 million compared to the net appreciated value from 2016. Also, an increase of \$0.3 million in investment income in comparison to the 2016 investment income.

Economic Factors

The financial market started to come back over the current year. The Plan saw increasing financial market values and investment returns throughout the year. Management believes that the Plan is in a financial position to meet its pension benefit obligations. Management continues to strive for a consistent investment strategy and believes the market conditions will become more stable in the next few years.

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, 2017

Assets

Investments at fair value:

Equities	\$ 270,714,063
Fixed income	76,973,020
Money market	6,539,488
Total investments	<u>354,226,571</u>

Receivables:

Interest and dividends	672,034
Contributions	489,132
Total receivables	<u>1,161,166</u>

Other assets:

Prepaid items and other assets	1,535,567
Net pension asset	22,935
Total other assets	<u>1,558,502</u>

Total assets

356,946,239

Deferred outflows of resources

Deferred pension amounts	<u>23,896</u>
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Liabilities

Accounts payable	279,966
Accrued liabilities	179,080
Accrued vacation and sick pay	1,593

Total liabilities

460,639

Deferred inflows of resources

Deferred pension amounts	<u>14,159</u>
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Net position

Restricted for pension benefits	<u>\$ 356,495,337</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, 2017

Additions

Investment income:

Net appreciation in fair value of investments	\$ 54,153,293
Interest and dividends	6,001,524
Other revenue	42,257
Total investment income	<u>60,197,074</u>
Investment expenses	<u>(1,769,964)</u>
Net investment income	<u>58,427,110</u>

Contributions:

Employer	2,775,423
Plan members	2,098,605
Total contributions	<u>4,874,028</u>

Total additions 63,301,138

Deductions

Participant benefits (including refunds of contributions)	17,764,716
Administrative expenses	<u>553,123</u>

Total deductions 18,317,839

Change in net position 44,983,299

Net position, beginning of year, as restated 311,512,038

Net position, end of year \$ 356,495,337

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 accompanying financial statements present only the financial position and changes in net position of the Bay County Employees' Retirement System pension trust fund. They do not purport to, and do not, present fairly the net position or changes in net position of Bay County in conformity with accounting principles generally accepted in the United States of America.

The Retirement Commission 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 the 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, 2017:

Active participants:

Retirees and beneficiaries	960
Inactive, nonretired members	90
Active members	<u>1,142</u>
	<u><u>2,192</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, 2017, determined through an actuarial valuation performed at December 31, 2016, were as follows for each employer/division:

General County	0.00%
Sheriff's Department	0.00%
Department of Water and Sewer	12.83%
Medical Care Facility	0.27%
Road Commission	19.19%
Bay Arenac Behavioral Health	8.95%

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 \$57,008 for the year ended December 31, 2017.

In addition, the general county division made discretionary monthly contributions into the Plan of 4.00% of payroll, which was approximately \$682,000, for the year ended December 31, 2017. The Library and Bay Arenac Behavioral Health exceeded their annual required contributions by \$13,446 and \$19,506, respectively.

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, 2017, were as follows by employer/division:

General County	4.00%
Sheriff's Department	4.00-6.00%
Department of Water and Sewer	4.00%
Medical Care Facility	4.00%
Road Commission	5.00%
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 \$52,293 for the year ended December 31, 2017.

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 1.60% 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	<u>100%</u>	

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 did not have any securities on loan as of December 31, 2017.

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, 2017:

Investments at fair value

Equities:

Convertible equities	\$ 1,656,517
Domestic equities	213,221,691
International equities	39,214,661
Private equities	16,621,194
Total equities	<u>270,714,063</u>

Fixed income:

Asset backed securities	1,017,488
Corporate bonds **	28,760,385
Corporate convertible bonds **	10,735,410
Government bonds	11,501,246
Government issued commercial mortgage-backed	14,752,890
International bonds **	10,205,601
Total fixed income	<u>76,973,020</u>

Money market	<u>6,539,488</u>
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Total investments	<u>\$ 354,226,571</u>
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** The Plan's investments in corporate bonds and international bonds include call options with a market value of \$22,381,372 and \$5,692,531, respectively.

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.

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Notes to Financial Statements

As of December 31, 2017, Moody's ratings for the Plan's investments were as follows:

	Investment Type			
	Equities	Fixed Income	Money Market	Total
Aaa	\$ -	\$ 27,237,358	\$ 1,134,403	\$ 28,371,761
Aa	-	12,928,920	-	12,928,920
A	-	13,447,300	-	13,447,300
Baa	1,656,517	18,196,342	-	19,852,859
Ba	-	3,551,277	-	3,551,277
B	-	94,719	-	94,719
Not rated	269,057,546	1,517,104	5,405,085	275,979,735
Total	\$ 270,714,063	\$ 76,973,020	\$ 6,539,488	\$ 354,226,571

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, 2017 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, 2017, investment maturities for the Plan's investments were as follows:

	Investment Type			
	Equities	Fixed Income	Money Market	Total
Less than 1 year	\$ -	\$ 239,360	\$ -	\$ 239,360
1 - 5 years	-	21,450,377	-	21,450,377
6 - 10 years	-	19,691,035	-	19,691,035
More than 10 years	-	24,856,837	-	24,856,837
No maturity	270,714,063	10,735,411	6,539,488	287,988,962
Total	\$ 270,714,063	\$ 76,973,020	\$ 6,539,488	\$ 354,226,571

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Notes to Financial Statements

Foreign Currency Risk. Foreign currency risk is the risk that significant fluctuations in exchange rates may adversely affect the fair value of an investment. The Plan has no policies relating to foreign currency risk. The Plan's exposure to foreign currency risk is summarized as follows:

Investment/ Country	Currency	Fair Value (in U.S. Dollars)	
		International Equities	International Fixed Income
Australia	Australian Dollar	\$ -	\$ 782,100
Bermuda	Bermudian Dollar	-	126,463
Canada	Canadian Dollar	38,815,264	1,115,975
Cayman Islands	Cayman Dollar	-	298,194
Chile	Chilean Peso	-	113,253
China	Renminbi	163,636	-
Finland	European Euro	-	133,448
France	European Euro	235,761	1,296,881
Ireland	European Euro	-	534,794
Japan	Japanese Yen	-	752,238
Luxembourg	European Euro	-	241,441
Netherlands	European Euro	-	1,836,186
Norway	Norwegian Krone	-	172,596
Spain	European Euro	-	73,789
Switzerland	Swiss Franc	-	199,397
United Kingdom	British Pound	-	2,528,846
Total international investments		<u>\$ 39,214,661</u>	<u>\$ 10,205,601</u>

Rate of Return. For the year ended December 31, 2017, the annual money-weighted rate of return on Plan's investments, net of Plan investment expenses, was 19.4%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts that are actually invested.

BAY COUNTY EMPLOYEES' RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Notes to Financial Statements

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
Convertible equities	\$ 1,656,517	\$ -	\$ -	\$ 1,656,517
Domestic equities	213,221,691	-	-	213,221,691
International equities	39,214,661	-	-	39,214,661
Private equities	-	16,621,194	-	16,621,194
Asset-backed securities	1,017,488	-	-	1,017,488
Corporate bonds	28,760,385	-	-	28,760,385
Corporate convertible bonds	-	10,735,410	-	10,735,410
Government bonds	-	11,501,246	-	11,501,246
Government issued commercial mortgage-backed securities	-	14,752,890	-	14,752,890
International bonds	10,205,601	-	-	10,205,601
	<u>\$ 294,076,343</u>	<u>\$ 53,610,740</u>	<u>\$ -</u>	<u>347,687,083</u>
Investments carried at amortized cost - Money market funds				<u>6,539,488</u>
Total				<u>\$ 354,226,571</u>

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.

Convertible, domestic and international equities, asset-backed securities and corporate bonds classified as Level 1 of the fair value hierarchy are valued based on quoted market prices in active markets.

Private equities, corporate convertible bonds, government bonds and government issued commercial mortgage-backed securities 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.

4. RESTATEMENTS

A correction of an error made in a prior year in the actuarial split of assets held in the Bay County Employees' Retirement Systems' Plan trust resulted in the restatement of the pension trust fund beginning net position of \$11,062. This adjustment has no impact on the prior year's change in net position.



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%

* 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.