
Monroe County Employees' Retirement System

(a component unit of the County of Monroe, Michigan)

Financial Report
with Supplemental Information
December 31, 2020

Monroe County Employees' Retirement System

Contents

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-4
Basic Financial Statements	
Statement of Fiduciary Net Position	5
Statement of Changes in Fiduciary Net Position	6
Notes to Financial Statements	7-14
Required Supplemental Information	15
Schedule of Changes in the County's Net Pension Liability and Related Ratios	16
Schedule of County Contributions	17
Schedule of Investment Returns	18
Note to Required Supplemental Information	19

Independent Auditor's Report

To the Board of Trustees
Monroe County Employees' Retirement System

Report on the Financial Statements

We have audited the accompanying financial statements of Monroe County Employees' Retirement System (the "System"), a component unit of the County of Monroe, Michigan, as of and for the year ended December 31, 2020 and the related notes to the financial statements, which collectively comprise Monroe County Employees' Retirement System'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.

Auditor's 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 auditor's 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 entity'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 entity'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 basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of Monroe County Employees' Retirement System as of December 31, 2020 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.

To the Board of Trustees
Monroe County Employees' Retirement System

Other Matter

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplemental information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Plante & Moran, PLLC

June 23, 2021

Monroe County Employees' Retirement System

Management's Discussion and Analysis

Using This Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	2020	2019
Total assets	\$ 237,702,589	\$ 213,940,361
Total liabilities	2,261,729	98,540
	\$ 235,440,860	\$ 213,841,821
Net position restricted for pensions		
Net investment income	\$ 29,159,039	\$ 32,962,466
Total contributions	11,297,200	10,770,143
Retiree pension and annuity benefits	(17,737,410)	(17,069,336)
Refunds of contributions	(919,002)	(851,265)
General and administrative expenses	(200,788)	(214,400)
	\$ 21,599,039	\$ 25,597,608
Net increase in net position restricted for pensions		

Overall Fund Structure and Objectives

Monroe County Employees' Retirement System (the "System") exists to pay benefits to its members and retirees. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Effective after December 31, 2020, the Monroe County Board of Commissioners adopted a resolution to close the plan to certain new entrants and permit existing members to make a one-time, irrevocable election to freeze their future benefit accruals under the plan and become a participant under a defined contribution retirement plan adopted by the county. In addition, each member's contribution to the System shall be 4 and 5 percent of his or her compensation for 2021 and 2022, respectively.

Asset Allocation

The System has established asset allocation policies that are expected to deliver sufficient investment income over a very long period of time to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the System's adopted asset allocation as of December 31, 2020:

Asset Class	Target Allocation
Equities	63.0 %
Fixed income	14.0
Real estate	12.0
Alternatives	10.0
Cash	1.0
Total	100.0 %

Monroe County Employees' Retirement System

Management's Discussion and Analysis (Continued)

Investment Results

2020 will be remembered because of COVID-19. For investors, the year will be remembered for the rollercoaster ride that the markets took. After a modest start to 2020, the stock market plunged by over 33 percent in 23 trading days during February and March. The decline coincided with the spread of the pandemic across the globe and the resulting economic shutdowns. Governments and central banks introduced fiscal and monetary programs to soften the impact. The markets responded by recouping their losses in just under 100 trading days. The equity markets continued to their rebound into the second half of the year, particularly after the announcement that a COVID-19 vaccine had been developed in November. However, not all stocks fully participated in the recovery - growth stocks outperformed value stocks by a wide margin during the year (roughly 30 percent). The fixed-income market also produced relatively good results, as interest rates fell dramatically. Real estate was one asset class that struggled in 2020, as the stay-at-home orders impaired retail and office properties. In 2020, the S&P 500 gained 18.4 percent (large-cap stocks), the Bloomberg Barclays U.S. Aggregate (U.S. fixed income) increased 7.5 percent, and the NCREIF Property Index (U.S. real estate) rose 1.6 percent.

The total fund returned 13.40 percent net of fees for the year (time-weighted rate of return).

Contacting the System's Management

This financial report is intended to provide a general overview of the System's finances and investment results in relation to actuarial projections. It shows the System's accountability for the money it receives from employer and employee contributions. If you have questions about this report or need additional information, we welcome you to contact the System's office at 840 South Roessler Street, Monroe, MI 48161.

Monroe County Employees' Retirement System

Statement of Fiduciary Net Position

December 31, 2020

Assets

Cash and short-term investments	\$ 7,059,734
Investments:	
U.S. Treasurys	9,509,823
Equities	67,175,125
Fixed income	11,624,842
Mutual fund	67,923,613
Commingled funds	24,260,264
Real estate funds	37,068,178
Hedge fund	12,295,182
Receivables:	
Due from brokers for securities sold	234,882
Contributions receivable	372,553
Accrued income	178,393
Total assets	<u>237,702,589</u>

Liabilities

Accounts payable and accrued expenses	178,557
Due to brokers for securities purchased	<u>2,083,172</u>
Total liabilities	<u>2,261,729</u>

Net Position - Restricted for pensions

\$ 235,440,860

Monroe County Employees' Retirement System

Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2020

Additions

Investment income (loss):	
Interest and dividends	\$ 3,863,096
Net increase in fair value of investments	25,986,085
Investment-related expenses	<u>(690,142)</u>
Net investment income	29,159,039
Contributions:	
Employer contributions	10,259,663
Member contributions	887,537
Employer supplemental contributions	<u>150,000</u>
Total contributions	<u>11,297,200</u>
Total additions	40,456,239

Deductions

Benefit payments	17,737,410
Refunds of contributions	919,002
Administrative expenses - Not investment related	<u>200,788</u>
Total deductions	<u>18,857,200</u>

Net Increase in Fiduciary Net Position	21,599,039
Net Position - Beginning of year	<u>213,841,821</u>
Net Position - End of year	<u><u>\$ 235,440,860</u></u>

December 31, 2020

Note 1 - Significant Accounting Policies

Accounting and Reporting Principles

The System follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies used by the System:

Reporting Entity

Monroe County Employees' Retirement System (the "System") is a single-employer defined benefit contributory pension plan administered by the Monroe County Employees' Retirement System board of trustees (the "Board"). The System primarily provides pension, disability, and death benefits, covering substantially all full-time employees of Monroe County, Michigan and its component units, including the following:

Monroe County Library System
Monroe County Road Commission
Monroe County Agency
Monroe County Community Mental Health Authority

The System was adopted by Monroe County, Michigan (the "County") pursuant to Michigan Compiled Laws, Section 46.12a. Benefit provisions are established and may be amended by the Board, as permitted by county ordinances. The financial statements of the System are also included in the combined financial statements of the County as a fiduciary component unit. The assets of the System include no securities of or loans to the County or any other related party.

Basis of Accounting

The System uses the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. System member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due pursuant to legal requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Specific Balances and Transactions

Cash and Short-term Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Short-term investments are reported at cost, which approximates fair value.

Investments

Investments are reported at fair value or estimated fair value. Securities traded on a national or international exchange are valued at the last reported sale price at current exchange rates. Investments that do not have an established market value are reported at estimated fair value as determined by the System's management.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

December 31, 2020

Note 2 - Pension Plan

Plan Description

Monroe County Employees' Retirement System pension plan is a single-employer defined benefit pension plan that provides pensions for substantially all permanent full-time general employees of the County. Benefit terms have been established by contractual agreements between the County and the various employee union representations; amendments are subject to the same process.

Management of the System is vested in the retirement board, which consists of nine members: the Monroe County Board of Commissioners' (the "County Commission") chair or vice chair, at the discretion of the chair; a county commissioner selected by the County Commission; a citizen who is an elector of the County, selected by the County Commission; three members of the System, elected by the members of the System; one member of the System appointed by the Monroe County Library Board; one member elected from the Monroe County Road Commission; and one member who is a retiree and beneficiary of the System, elected by the Association of County Retired Employees, Inc.

Benefits Provided

The System provides retirement, disability, and death benefits. For the County and Monroe County Agency employees, benefit terms are established by negotiations between the County Commission and the employees through collective bargaining agreements and may be amended by the County Commission.

For Monroe County Library System employees, the terms are established by the library administration and library board of trustees. For Monroe County Road Commission employees, the terms are established by the road commission board of trustees through collective bargaining. For Monroe County Community Mental Health Authority employees, the terms are established by the mental health board of trustees through collective bargaining.

Plan Membership

The following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	816
Inactive plan members entitled to but not yet receiving benefits	195
Active plan members	715
	<hr/>
Total employees covered by the plan	1,726

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. The System hires an independent actuary for this purpose and annually contributes the amount determined to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the union contracts and plan provisions. For the year ended December 31, 2020, the active member contribution rate ranged from 0.0 percent to 5.0 percent of annual pay, and the contribution as a percentage of payroll for the various departments was 29.43 percent for the general County, 36.93 percent for Monroe County Agency, 32.08 percent for the sheriff's office, 18.62 percent for Monroe County Library System, 17.89 percent for Monroe County Road Commission, and 21.78 percent for Central Dispatch. The Monroe County Community Mental Health Authority's contributions are expressed in dollars, and the required contribution was \$853,650.

Note 2 - Pension Plan (Continued)

Net Pension Liability of the County

The net pension liability of the County has been measured as of December 31, 2020 based on benefits in force as of that date and is composed of the following:

Total pension liability	\$ 306,655,372
Plan fiduciary net position	<u>(235,440,860)</u>
Net pension liability of the County	<u>\$ 71,214,512</u>
Plan fiduciary net position as a percentage of the total pension liability	76.78 %

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2019, which used update procedures to roll forward the estimated liability to December 31, 2020. The liability was determined using an inflation assumption of 2.25 percent, assumed salary increases of 2.75 to 5 percent (including inflation), an investment rate of return (net of investment expenses) of 7.0 percent, and the Pub-2010 General Mortality Table with MP-2020 generational improvement scale. These assumptions are based on an experience study performed for the five-year period ended December 31, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that system contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Investment Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return as of the December 31, 2020 measurement date for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Equities	5.26 %
Fixed income	1.40
Real estate	4.43
Alternatives	5.13
Cash or cash equivalents	0.09

Note 2 - Pension Plan (Continued)

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

The following presents the net pension liability of the County, calculated using the discount rate of 7 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (6.00%)	Current Discount Rate (7.00%)	1 Percentage Point Increase (8.00%)
Net pension liability of the County	\$ 105,638,221	\$ 71,214,512	\$ 40,452,811

Assumption Changes

The current year total pension liability was determined using the Pub-2010 General Mortality Table with MP-2020 generational improvement scale. In the prior year, the Pub-2010 General Mortality Table with MP-2019 generational improvement scale was used.

Changes Since the Measurement Date

On November 17, 2020, the Monroe County Board of Commissioners adopted a resolution to close the plan to certain new entrants and permit existing members to make a one-time, irrevocable election to freeze their future benefit accruals under the plan and become a participant under a defined contribution retirement plan adopted by the County. The effective date of this resolution is January 1, 2021. In addition, each member's contribution to the System shall be 4 and 5 percent of his or her compensation for 2021 and 2022, respectively.

Investment Policy

The System's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2020:

Asset Class	Target Allocation
Equities	63.00 %
Fixed income	14.00
Real estate	12.00
Alternatives	10.00
Cash	1.00

Rate of Return

For the year ended December 31, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 13.12 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

In accordance with state law, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

Monroe County Employees' Retirement System

Notes to Financial Statements

December 31, 2020

Note 2 - Pension Plan (Continued)

The employee reserve is credited as employee contributions are received throughout the year; the System maintains a record of the amount contributed by each employee, and crediting of interest shall be the rate of interest per annum, compounded annually, as reflected in the 10-year U.S. Treasury rate for the prior calendar year ended on December 31. For any employees who terminate before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The balances of the reserve accounts are as follows:

Retiree reserve (as of the beginning of the year)	\$ 177,012,593
Employee reserve at December 31, 2020	<u>8,854,149</u>
Total	<u><u>\$ 185,866,742</u></u>

Note 3 - Deposits and Investments

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investments according to Michigan Public Act 314 of 1965, as amended. The System's deposits and investment policies are in accordance with statutory authority.

There are no limitations or restrictions on withdrawals for the investments that are recorded at amortized cost.

The System's cash and investments are subject to several types of risk, which are examined in more detail below.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities.

At year end, the System had the following investments and maturities:

Investment	Fair Value	1-5 Years	6-10 Years	More Than 10 Years
U.S. Treasuries	\$ 9,509,823	\$ 4,924,766	\$ 4,585,057	\$ -
Corporate bonds	10,323,814	4,380,976	5,942,838	-
Mortgage-backed securities	<u>1,301,028</u>	<u>-</u>	<u>-</u>	<u>1,301,028</u>
Total	<u><u>\$ 21,134,665</u></u>	<u><u>\$ 9,305,742</u></u>	<u><u>\$ 10,527,895</u></u>	<u><u>\$ 1,301,028</u></u>

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The System's investment policy emphasizes appropriate risk/return parameters and compliance with Public Act 314 of 1965, as amended, and gives discretionary authority to its investment managers, as opposed to establishing specific credit rating benchmarks. As of year end, the credit quality ratings of debt securities per Moody's (other than the U.S. government) are as follows:

Investment	A2	A3	Baa1 and Below	Not Rated
Corporate bonds	\$ 1,245,855	\$ 493,546	\$ 7,099,505	\$ 1,484,908
Mortgage-backed securities	-	-	-	1,301,028
Total	<u>\$ 1,245,855</u>	<u>\$ 493,546</u>	<u>\$ 7,099,505</u>	<u>\$ 2,785,936</u>

Concentration of Credit Risk

The System's investment policy requires that no manager will hold more than 5 percent of its portion of the total fund in any single company, and no more than 5 percent may be held in any single common stock. At December 31, 2020, the System's investment portfolio was not concentrated.

Fair Value Measurements

The System 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 asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

December 31, 2020

Note 3 - Deposits and Investments (Continued)

The System has the following recurring fair value measurements as of December 31, 2020:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2020
Debt securities:				
U.S. Treasury securities	\$ -	\$ 9,509,823	\$ -	\$ 9,509,823
Corporate bonds	-	10,323,814	-	10,323,814
Mortgage-backed securities	-	1,301,028	-	1,301,028
Total debt securities	-	21,134,665	-	21,134,665
Equity securities - Stocks	67,175,125	-	-	67,175,125
Mutual funds	67,923,613	-	-	67,923,613
Total	\$ 135,098,738	\$ 21,134,665	\$ -	156,233,403
Investments measured at NAV:				
Commingled funds				24,260,264
Hedge fund				12,295,182
Real estate funds				37,068,178
Total investments measured at NAV				73,623,624
Total investments measured at fair value				\$ 229,857,027

Mutual funds and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of debt securities at December 31, 2020 was determined primarily based on Level 2 inputs. The System estimates the fair value of these investments based on prices that have been evaluated by independent pricing services. Such evaluated prices may be determined by using inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals, maturities, call features, and ratings among other factors.

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 System 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.

December 31, 2020

Note 3 - Deposits and Investments (Continued)

At December 31, 2020, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Commingled funds	\$ 24,260,264	\$ -	Immediate	N/A
Hedge fund	12,295,182	-	Quarterly	Up to 90 days
Equity real estate	37,068,178	2,490,201	Quarterly	Up to 90 days
Total investments measured at NAV	<u>\$ 73,623,624</u>	<u>\$ 2,490,201</u>		

The commingled fund class includes investments in funds that invest predominantly in fixed-income instruments in U.S., developed, and emerging-market countries. The funds invest across a diverse group of security types, including government, corporate, and mortgage-backed debt and across the credit quality spectrum of investment grade and high yield. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The equity real estate class includes investments in funds whose objective is to acquire, develop, own, and operate a diversified portfolio of real estate investments in commercial property. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

The hedge fund class includes investment in funds whose objective is to achieve substantial capital appreciation with limited volatility. The strategy is designed to achieve modest correlation to global equity and fixed-income returns. The funds pursue a multistrategy, multimanager approach to hedge fund investing and invest in four broad strategies: long/short equity, relative value, event driven/distressed, and global macro. The fair values of the investments in this class have been estimated using net asset value per share of the investments.

Required Supplemental Information

Monroe County Employees' Retirement System

Required Supplemental Information Schedule of Changes in the County's Net Pension Liability and Related Ratios

	Last Seven Fiscal Years						
	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service cost	\$ 4,362,926	\$ 4,074,075	\$ 4,101,406	\$ 3,852,383	\$ 4,007,459	\$ 3,901,674	\$ 4,475,473
Interest	21,081,489	19,978,752	19,397,343	19,352,896	18,590,127	18,114,296	17,360,575
Differences between expected and actual experience	(5,171,654)	3,537,130	2,161,876	(6,474,450)	4,215,420	(1,665,060)	-
Changes in assumptions	(1,090,383)	6,163,076	-	-	-	4,100,832	-
Benefit payments, including refunds	(18,656,412)	(17,920,601)	(16,734,297)	(15,955,473)	(15,567,005)	(15,081,332)	(14,348,289)
Net Change in Total Pension Liability	525,966	15,832,432	8,926,328	775,356	11,246,001	9,370,410	7,487,759
Total Pension Liability - Beginning of year	306,129,406	290,296,974	281,370,646	280,595,290	269,349,289	259,978,879	252,491,120
Total Pension Liability - End of year	\$ 306,655,372	\$ 306,129,406	\$ 290,296,974	\$ 281,370,646	\$ 280,595,290	\$ 269,349,289	\$ 259,978,879
Plan Fiduciary Net Position							
Contributions - Employer	\$ 10,409,663	\$ 9,853,368	\$ 8,359,272	\$ 8,483,096	\$ 8,044,525	\$ 7,938,586	\$ 7,275,798
Contributions - Member	887,537	916,775	944,299	868,337	851,150	897,929	773,806
Net investment income (loss)	29,159,039	32,962,466	(11,080,239)	24,707,505	12,409,450	(1,133,015)	7,866,098
Administrative expenses	(200,788)	(214,400)	(210,357)	(148,861)	(169,405)	(233,746)	(154,756)
Benefit payments, including refunds	(18,656,412)	(17,920,601)	(16,734,297)	(15,955,474)	(15,567,004)	(15,081,332)	(14,348,289)
Net Change in Plan Fiduciary Net Position	21,599,039	25,597,608	(18,721,322)	17,954,603	5,568,716	(7,611,578)	1,412,657
Plan Fiduciary Net Position - Beginning of year	213,841,821	188,244,213	206,965,535	189,010,932	183,442,216	191,053,794	189,641,137
Plan Fiduciary Net Position - End of year	\$ 235,440,860	\$ 213,841,821	\$ 188,244,213	\$ 206,965,535	\$ 189,010,932	\$ 183,442,216	\$ 191,053,794
County's Net Pension Liability - End of year	\$ 71,214,512	\$ 92,287,585	\$ 102,052,761	\$ 74,405,111	\$ 91,584,358	\$ 85,907,073	\$ 68,925,085
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	76.78 %	69.85 %	64.85 %	73.56 %	67.36 %	68.11 %	73.49 %
Covered Payroll	\$ 36,622,993	\$ 35,112,555	\$ 35,798,576	\$ 35,292,710	\$ 34,786,368	\$ 34,514,128	\$ 33,045,751
County's Net Pension Liability as a Percentage of Covered Payroll	194.45 %	262.83 %	285.07 %	212.82 %	263.28 %	248.90 %	208.57 %

This schedule is intended to show information for 10 years. GASB 67 was implemented in 2014, and additional years will be added as they become available.

Monroe County Employees' Retirement System

Required Supplemental Information Schedule of County Contributions

**Last Ten Fiscal Years
Years Ended December 31**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 10,255,731	\$ 9,353,368	\$ 8,395,905	\$ 8,446,463	\$ 8,044,525	\$ 7,938,586	\$ 7,275,798	\$ 7,169,324	\$ 7,114,103	\$ 5,994,825
Contributions in relation to the actuarially determined contribution (includes supplemental pension benefit funding)	10,409,663	9,853,368	8,359,272	8,483,096	8,044,525	7,938,586	7,275,798	7,169,324	7,114,103	5,994,825
Contribution Excess (Deficiency)	\$ 153,932	\$ 500,000	\$ (36,633)	\$ 36,633	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 36,622,993	\$ 35,112,555	\$ 35,798,576	\$ 35,292,710	\$ 34,786,368	\$ 34,514,128	\$ 33,045,751	\$ 37,587,747	\$ 38,891,988	\$ 42,893,135
Contributions as a Percentage of Covered Payroll	28.4 %	28.1 %	23.4 %	24.0 %	23.1 %	23.0 %	22.0 %	19.1 %	18.3 %	14.0 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported. Contributions for FY 2020 were determined based on the actuarial valuation as of December 31, 2018. The most recent actuarial valuation for funding purposes was as of December 31, 2019.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Liabilities were amortized using a 25-year level percent of payroll, with the exception of Monroe County Community Mental Health Authority liabilities, which were amortized using a level-dollar method for the valuation as of December 31, 2012.
Remaining amortization period	25 years - At the September 21, 2015 board meeting, the Board adopted a 25-year layered amortization with 2 percent annual payment increases. Future unanticipated unfunded actuarial accrued liability (UAAL) will be amortized over a 25-year period from the point incurred, resulting in a schedule of UAAL payments.
Inflation	3.00 percent
Salary increase	2 - 5 percent, varies by employee group
Investment rate of return	7.00 percent (net of investment expenses)
Mortality	The Fully Generational RP-2014 Blue Collar Mortality Tables for males and females, using projection scale MP-2014

Monroe County Employees' Retirement System

Required Supplemental Information Schedule of Investment Returns

	Last Seven Fiscal Years						
	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return - Net of investment expense	13.1 %	17.7 %	(5.7)%	13.3 %	6.6 %	(0.2)%	5.7 %

This schedule is intended to show information for 10 years. GASB 67 was implemented in 2014, and additional years will be added as they become available.

Monroe County Employees' Retirement System

Note to Required Supplemental Information

December 31, 2020

Changes in Assumptions

In 2015, amounts reported as changes of assumptions resulted from adjustment of the discount rate from 6.95 to 7 percent and updating the mortality tables from RP-2000 Mortality Table to RP-2014 Blue Collar Annuitant Table.

In 2019, amounts reported as changes of assumptions resulted from change in the inflation assumption from 3 to 2.25 percent; assumed salary increases range from 3 to 5.50 percent (including inflation) to a range of 2.75 to 5 percent (including inflation); and mortality table from the Fully Generational RP-2014 Blue Collar Mortality Tables for males and females, using projection scale MP-2014, to the Pub-2010 General Mortality Table with MP-2019 generational improvement scale.

In 2020, amounts reported as changes of assumptions resulted from change in the mortality table from the Pub-2010 General Mortality Table with MP-2019 generational improvement scale to the Pub-2010 General Mortality Table with MP-2020 generational improvement scale.

June 23, 2021

To the Board of Trustees
Monroe County Employees' Retirement System

We have audited the financial statements of Monroe County Employees' Retirement System (the "System") as of and for the year ended December 31, 2020 and have issued our report thereon dated June 23, 2021. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Required Communications with Those Charged with Governance

Section II - Other Recommendations and Related Information

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board of trustees of the Monroe County Employees' Retirement System.

Section II presents recommendations related to internal control, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the System in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operational or administrative efficiency and effectiveness.

We would like to take this opportunity to thank the System's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism are invaluable.

This report is intended solely for the use of the board of trustees and management of the System and is not intended to be and should not be used by anyone other than these specified parties.

We welcome any questions you may have regarding the following communications, and we would be willing to discuss these or any other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC



Joe Kowalski, CPA



Spencer Tawa, CPA

Section I - Required Communications with Those Charged with Governance

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 30, 2021, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the System. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 30, 2021.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the System are described in Note 1 to the financial statements.

No new accounting policies were adopted, and the application of existing policies was not changed during 2020.

We noted no transactions entered into by the System during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimates affecting the financial related to the following:

- The valuation of non-publicly traded investments constitutes a sensitive estimate affecting the financial statements. Management's estimates of certain investments are based on audited financial statements and monthly/quarterly reports (capital statements). We evaluated the key factors and assumptions used to develop these estimates determining that they are reasonable in relation to the financial statements taken as a whole. We believe management's estimates are in accordance with GAAP for the balances as of December 31, 2020.

Section I - Required Communications with Those Charged with Governance (Continued)

- Financial statement disclosures and required supplemental information schedules contain information about the System's total pension liability. In order to determine the total pension liability, the actuary must apply certain assumptions that are highly sensitive to estimation. The most sensitive estimates used in the valuation were the assumed long-term rate of return, the calculation of the discount rate, and the pre- and postretirement mortality assumptions. The System is currently using 7 percent for the assumed long-term expected rate of return based on information provided by the System's investment advisor on long-term expected returns given the System's current investment mix. The calculation of the discount rate is highly sensitive to the estimate the actuary makes about future contributions and future benefit payments using the assumed long-term rate of return. Other assumptions, including mortality rates, were based on an experience study adopted by the board for the period from December 31, 2014 to December 31, 2018. Disclosure of these assumptions and resultant sensitivity of the discount rate can be found in Note 2 to the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements, and none of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the System, and business plans and strategies that may affect the risks of material misstatement, with management each year prior to our retention as the System's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 23, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a second opinion on certain situations. If a consultation involves application of an accounting principle to the System's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Section II - Other Recommendations and Related Information

During our audit, we noted areas where we believe there are opportunities for the System to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented below for your consideration:

Harder-to-value Investments

The System has investments where readily determinable market values are not available. To record these investments, the System relies on information obtained from the investment managers, such as a capital statement. The System's investment advisor receives audited financial statements for these investments. To ensure that the amounts recorded in the System's accounting records are reflective of an accurate market value in accordance with GAAP, we recommend the System's staff monitor the investment advisor's review of the audited financial statements of these investments, ensuring the opinion states that the investment is reflected on a market value basis and ensuring that the System's portion of the investment agrees to what was reported on the capital statements.

Member Database Review

The System maintained information on participants in software created by Nyhart related to benefit payments, payroll information, years of service, date of birth, contributions accumulated, and other information used in the valuation by Nyhart. In order to update this information in the system, there are two individuals with administrative access to make changes in this database. While any changes to an individual participant can be shown in an audit trail (showing the user who made the change and the date of the change), this report must currently come from Nyhart at the request of the System, as it is not a report the System has access to. In addition, there is no report that can be reviewed to show all changes to all participants made during a given time due to software limitations. We recommend the System implement a feature to run an audit report for monthly review by both administrative users and a board member.