Kent County Voluntary Employees' Beneficiary Association

Year Ended December 31, 2011

Financial Statements

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KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

June 8, 2012

Members of the Board of Trustees of the
Kent County Voluntary Employees' Beneficiary Association
Grand Rapids, Michigan

We have audited the accompanying statement of plan net assets of the *Kent County Voluntary Employees' Beneficiary Association* (the "VEBA", an other postemployment benefits trust fund of the County of Kent, Michigan) as of December 31, 2011, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of the County of Kent, Michigan. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements referred to above present only the Kent County Voluntary Employees' Beneficiary Association and do not purport to, and do not, present fairly the financial position of the County of Kent, Michigan as of December 31, 2011, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan net assets held in trust for benefits of the Kent County Voluntary Employees' Beneficiary Association at December 31, 2011, and the changes therein for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated June 8, 2012, on our consideration of the Kent County Voluntary Employees' Beneficiary Association's internal control over financial reporting and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 and the schedules of funding progress and employer contributions on page 18 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, who 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 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 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 assurance.

Rehmann Robson

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

The following is a discussion and analysis of the financial performance and position of the Kent County Voluntary Employees' Beneficiary Association ("VEBA") which accounts for the County of Kent, Michigan's (the "County") single-employer defined-benefit other postemployment benefits healthcare plan (the "Plan") for the year ended December 31, 2011. This analysis should be read in conjunction with the *Independent Auditors' Report* and with the financial statements, which follow this section.

Financial Highlights

- VEBA assets exceeded liabilities at December 31, 2011 by $10,531,437 (reported as net assets).
- The VEBA's funding objective is to meet the long-term benefit obligations through contributions and investment income. At December 31, 2011 (the date of the last actuarial valuation), the funded ratio was 23.8 percent.
- Additions to net assets for the year ended December 31, 2011 were $2,412,692 which is comprised of contributions of $2,081,741 and investment income, net of investment expense of $330,951.
- Deductions from net assets increased 18.9 percent from 2010 to 2011 (from $743,416 to $884,322), and were comprised primarily of healthcare subsidies paid to insurance providers on behalf of plan members.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets

This report consists of two financial statements: the *Statement of Plan Net Assets* (page 8) and the *Statement of Changes in Plan Net Assets* (page 9). These financial statements report information about the VEBA, as a whole, and about its financial condition that should help answer the question: Is the VEBA better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid. The *Statement of Plan Net Assets* presents all of the VEBA's assets and liabilities with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the VEBA's financial position is improving or deteriorating. The *Statement of Changes in Plan Net Assets* presents how the VEBA's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and the Schedule of Employer Contributions (presented after the footnotes as required supplementary information) to determine whether the VEBA is becoming financially stronger or weaker and to understand changes over time in the funded status of the VEBA.

Financial Analysis

Total assets as of December 31, 2011 and 2010 were $10,741,045 and $9,188,350, respectively, and were comprised mainly of investments and receivables. Total assets increased $1,552,695 or 16.9 percent from December 31, 2010 to December 31, 2011 primarily due to advance funding based on actuarial calculations.

Total liabilities as of December 31, 2011 were $209,608, and consisted of accounts payable for retiree healthcare subsidies for the fourth quarter of 2011. Total liabilities increased $24,325 or 13.1 percent from December 31, 2010 to December 31, 2011, due to an increase in retiree healthcare subsidies.

VEBA assets exceeded its liabilities at the close of 2011 by $10,531,437.

Management's Discussion and Analysis

	Net Assets December 31, 2011	2010
Assets		
Cash	$ 91,569	$ 437,730
Receivables	83,139	100,438
Investments	10,566,337	8,650,182
Total assets	10,741,045	9,188,350
Liabilities		
Accounts payable	209,608	185,283
Total net assets	$ 10,531,437	$ 9,003,067

Revenue

The reserves needed to finance postemployment healthcare benefits are accumulated though the collection of employer contributions and through earnings on investments. Contributions and net investment income for 2011 and 2010 totaled $2,412,692 and $3,094,134, respectively.

Total contributions and net investment income decreased $681,442 from 2010 to 2011 due to the difference between the investment returns in 2010 and 2011.

Expenses - Deductions from Plan Net Assets

The primary expenses of the VEBA include the healthcare stipends paid on behalf of members and beneficiaries and cost of administering the Plan. Total deductions for fiscal years 2011 and 2010 were $884,322 and $743,416, respectively.

Benefit payments increased by $164,529 or 23.7 percent from $692,992 to $857,521 from 2010 to 2011, respectively. This was primarily a result of an early retirement incentive offered to Kent County employees in 2010, which increased the number of retirees receiving benefits.

Management's Discussion and Analysis

	Changes in Net Assets	
	Year Ended December 31,	
	2011	2010
Additions		
Contributions	$ 2,081,741	$ 2,194,181
Net investment income	330,951	899,953
Total additions	2,412,692	3,094,134
Deductions		
Benefit payments	857,521	692,992
Administrative expenses	26,801	50,424
Total deductions	884,322	743,416
Change in net assets	1,528,370	2,350,718
Net assets, beginning of year	9,003,067	6,652,349
Net assets, end of year	$ 10,531,437	$ 9,003,067

Economic Factors, Investment Returns, and Other Important Matters

- The stock market is a principal investment forum utilized by the VEBA, therefore the market's volatility will have either a positive or negative impact on net assets. The purpose of the VEBA is to provide long-term benefits through long-term investing. The investment policy is set up to achieve this long-term objective. Due to poor market performance in 2011 the actuarial assumed rate of return of 7.5% was not achieved. The VEBA carefully monitors investment performance to achieve acceptable investment results.

- The estimated cash contribution rate for 2012 is 2.76%.

Contacting the VEBA's Financial Management

This financial report is designed to provide the public, citizens, and other interest parties with a general overview of the VEBA's financial position. If you have questions about this report or need additional financial information, contact Stephen W. Duarte, Fiscal Services Director, County of Kent, 300 Monroe Ave. NW, Grand Rapids, MI 49503.

FINANCIAL STATEMENTS

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Statement of Plan Net Assets

December 31, 2011

Assets	
Cash	$ 91,569
Receivables	83,139
Investments, at fair value:	
Domestic equity mutual funds	9,498,901
International equity mutual funds	1,067,436
Total investments	10,566,337
Total assets	10,741,045
Liabilities	
Accounts payable	209,608
Net assets held in trust for other postemployment benefits (a schedule of funding progress is presented on page 18)	$ 10,531,437

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

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Statement of Changes in Plan Net Assets

For the Year Ended December 31, 2011

Additions	
Employer contributions	$ 2,081,741
Investment income:	
Net appreciation in fair value of investments	128,247
Interest	235,761
Total investment income	364,008
Management fees	(33,057)
Net investment income	330,951
Total additions	2,412,692
Deductions	
Benefit payments	857,521
Administrative expenses	26,801
Total deductions	884,322
Change in net assets	1,528,370
Net assets held in trust for other postemployment benefits, beginning of year	9,003,067
Net assets held in trust for other postemployment benefits, end of year	$ 10,531,437

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

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NOTES TO FINANCIAL STATEMENTS

Notes to Financial Statements

1. PLAN DESCRIPTION

The Kent County Voluntary Employees' Beneficiary Association ("VEBA") is a single-employer defined benefit postemployment healthcare plan established and administered by the County of Kent, Michigan (the "County"). The VEBA provides health insurance benefits to certain retirees or their beneficiaries, which are advance funded on an actuarial basis. Retirees and their beneficiaries are eligible for postemployment healthcare benefits if they are receiving a pension from the Kent County Employees' Retirement Plan.

The VEBA is funded by a trust agreement established pursuant to Section 501(c)(9) of the Internal Revenue Code which allows for the formation of such a plan, and is included as an other postemployment benefits trust fund in the County's comprehensive annual financial report.

VEBA membership consisted of the following at December 31, 2011, the date of the most recent actuarial valuation:

Retirees and beneficiaries currently receiving benefits	513
Terminated employees entitled to but not yet receiving benefits	-
Active participants	1,634
Total membership	2,147

The contribution requirements of VEBA members and the County are established and may be amended by the County Board of Commissioners, in accordance with County policies, union contracts, and Plan provisions. The VEBA covers the Management Pay Plan, both exempt and non-exempt, elected officials, including judges, and nine collective bargaining units. The postemployment benefit is provided in the form of a fixed monthly dollar subsidy to be used toward health insurance premiums in a County-sponsored insurance plan. The subsidy ranges from $250 to $350 per month, based on bargaining unit and years of service. VEBA members hired through December 31, 2010 are eligible to receive this benefit upon retirement at age 60 with 5 years of service or at any age with 25 years of service. Members hired on or after January 1, 2011 (January 1, 2012 for the Teamsters-Parks and Airport Command Officers Association) are eligible at age 62 with 5 years of service of age 60 (55 for captains and lieutenants) with 25 years of service. The subsidy is prorated for service less than 25 years. An employee that retirees at age 55 or older with 15 or more years of service is eligible for the subsidy under the early retirement option, prorated for service less than 25 years.

Retirees are responsible for reimbursing the County for the cost of premiums for the selected level of coverage in excess of the subsidy. The retiree's share of premiums can be deducted automatically from his or her monthly pension distribution, or paid directly to the County Treasurer. Since retirees must participate in one of the County's health insurance plans in order to receive the benefit, the entire cost of retiree health care premiums is accounted for in the County's health insurance internal service fund. Retiree reimbursements are reported as operating revenue in the internal service fund. On a quarterly basis, the total amount of retiree subsidies for the previous period is billed to the VEBA. This portion of premium costs, which includes the County subsidy only, comprises the entire amount of benefit payments in the statement of changes in plan net assets.

Notes to Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The VEBA's financial statements are prepared using the accrual basis of accounting. Employee and Employer contributions are recognized in the period in which the contributions are due, and for employer contributions, when 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 plan.

Valuation of Investments and Income Recognition

VEBA investments are reported at fair value. Short-term investments are reported at 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. 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 Kent County VEBA Board of Trustees, with the assistance of a valuation service.

Administration

Administrative costs are financed through the VEBA's investment earnings.

Receivables

At the end of the year, components of receivables were as follows:

Contributions receivable	$ 70,947
Interest receivable	12,192
Total	$ 83,139

Payables

Accounts payable is comprised of amounts due to the County for retiree subsidies related to the previous quarter.

3. DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the VEBA's deposits might not be returned. The VEBA has a demand savings accounts with one financial institution. As of year-end, none of the VEBA's bank balance of $91,569 was exposed to custodial credit risk because the entire balance was covered by FDIC insurance.

Investments

The VEBA is authorized by the Michigan Public Employees Retirement Systems' Investment Act 314 of 1965, as amended, to invest in stocks, government and corporate securities, mortgages, real estate, and various other instruments, subject to certain limitations. The VEBA's Board of Trustees is responsible for adopting the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the VEBA.

The VEBA's investments are held in four portfolios administered by four investment managers. Following is a summary of the VEBA's investments as of December 31, 2011: (investments at fair value, as determined by quoted market price).

Investments at fair value	
Domestic equity mutual funds	$ 9,498,901
International equity mutual funds	1,067,436
Total investments	$ 10,566,337

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The VEBA's investment policy requires that bonds have a minimum quality rating of BBB/Baa at the time of purchase. The overall portfolio is expected to maintain an average credit quality of AA or higher. Money market instruments shall have a minimum quality rating comparable to an A bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short-term commingled fund. As the investments are all domestic and international mutual funds, the VEBA's investments held are not subject to credit risk.

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 VEBA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. 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 VEBA's investment in a single issuer. For fixed income portfolios, the VEBA's Investment Policy provides that, with the exception of the U.S. government and its agencies, no more than 3 percent of the portfolio shall be invested in the obligations of any one issuer. As the investments are all domestic and international mutual funds, the VEBA's investments held are not subject to this risk.

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. The VEBA mitigates foreign currency risk by requiring the portfolio to be broadly diversified by number of holdings, by geographic location and across industry sectors. Country exposures are monitored through a quarterly performance report. The VEBA's exposure to foreign currency risk as of December 31, 2011 was $1,067,436. The entire amount was comprised of international equity mutual funds denominated in U.S. dollars.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The VEBA's policy provides for its fixed income portfolio to have an average duration of no more than 120 percent of the duration of the stated benchmark (Barclays Aggregate Bond Index). At December 31, 2011, as the investments are all domestic and international mutual funds, the VEBA's investments held are not subject to interest rate risk.

Notes to Financial Statements

4. ANNUAL REQUIRED CONTRIBUTIONS

The County's funding policy provides for periodic employer contributions at actuarially determined rates that are expressed as percentages of annual covered payroll, and are designed to accumulate sufficient assets to pay benefits when due. The County's contribution rate for the year ended December 31, 2011 was 2.12 percent of projected valuation payroll.

For the year ended December 31, 2011, employer contributions totaled $3,181,372 which included cash payments of $2,081,741 for current premiums and an implicit rate subsidy (which did not require cash) of $1,099,631. Cash payments included $857,521 for current premiums and an additional $1,224,220 to prefund benefits.

Historical information on the VEBA's actual employer contributions is presented as required supplementary information following the notes to the financial statements.

5. FUNDED STATUS AND FUNDING PROGRESS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of assets held in trust are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009, actuarial valuation (used to determine the contribution rates for the year ended December 31, 2011), the entry age actuarial cost method was used. The actuarial assumptions included a 7.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4 percent after ten years. Both rates included a 4 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2011, was thirty years.

Funded Status and Funding Progress. As of December 31, 2011, the most recent actuarial valuation date, the Plan was 23.8 percent funded. The actuarial accrued liability for benefits was $44,257,602, and the actuarial value of assets was $10,531,436, resulting in an unfunded actuarial accrued liability (UAAL) of $33,726,166. The covered payroll (annual payroll of active employees covered by the Plan) was $91,139,213, and the ratio of the UAAL to the covered payroll was 37.0 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarially accrued liability for benefits.

6. RISK MANAGEMENT

The VEBA is exposed to various risks of loss including fiduciary liability and torts. For the fiduciary liability exposure, a commercial fiduciary liability insurance policy is purchased with a $1,000,000 limit. For the tort exposures, the VEBA participates in the County's insurance program that includes the self-insured loss fund and excess liability insurance with a municipal liability pool. The County estimates the program costs, the liability for unpaid claims (including the incurred-but-not-reported IBNR) and allocates the cost to all appropriate entities and funds. There is no further exposure to the VEBA that would require a liability to be recorded in the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) / c)
12/31/2009	$ 6,467,528	$ 39,171,891	$ 32,704,363	16.5%	$ 95,198,853	34.4%
12/31/2010	9,003,067	45,864,042	36,860,975	19.6%	92,734,318	39.7%
12/31/2011	10,531,436	44,257,602	33,726,166	23.8%	91,139,213	37.0%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2009	$ 2,895,141	100%
2010	3,360,259	100%
2011	3,181,372	100%

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 8, 2012

Members of the Board of Trustees of the
Kent County Voluntary Employees' Beneficiary Association
Grand Rapids, Michigan

We have audited the financial statements of the *Kent County Voluntary Employees' Beneficiary Association* (the "VEBA", an other postemployment benefits trust fund of the County of Kent, Michigan) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the VEBA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the VEBA's internal control over financial reporting as a basis for designing our auditing procedures 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 VEBA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the VEBA's internal control over financial reporting.

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, detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identified any deficiencies that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described below as 2011-FS-1, that we consider to be a significant deficiency in internal control over financial reporting.

A *significant deficiency in internal control over financial reporting* 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.

2011-FS-1 - Calculation and Documentation of Benefit Payments

Criteria. The VEBA is required to maintain complete and accurate benefit enrollment records to support the subsidy paid to each retiree.

Condition. During our audit, we requested benefit enrollment support, which included employment contracts and/or union agreements, personnel records, and benefit election forms. In one instance, a retiree's monthly stipend was calculated using the incorrect number of years of service, resulting in an overpayment of approximately $11 per month over a period of 128 months.

Cause. By nature of a postemployment benefit plan, the County is providing benefits to individuals that may have retired many years ago. While it does not relieve the County of its obligation to maintain complete and accurate records, the exception noted above related to an employee that retired in 2001. In 2004, dedicated staff were hired to manage benefit processing and payments. The VEBA's current internal controls over new retiree processing, which appear to be designed and implemented appropriately, were not in place at the time of this individual's retirement.

Effect. As a result of this condition, the VEBA provided benefits to a retiree in excess of what the individual was entitled to under the provisions of the related bargaining unit agreement.

Recommendation. The benefit payment for this specific individual was corrected by management immediately. The VEBA may wish to consider developing an internal quality control process in which a random sample of participant files is reviewed periodically by an individual independent of the initial administrative process.

View of Responsible Officials. Internal controls over new retirees were implemented several years ago and a consistent process for calculating benefits is now in place. As noted above, the individual referred to in this finding retired before these controls were implemented.

Compliance and Other Matters

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

The VEBA's response to the finding identified in our audit is described above. We did not audit the VEBA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, others within the organization, and the County's Board of Commissioners and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Rehmann Robson