Kent County Voluntary Employees' Beneficiary Association

Year Ended December 31, 2012

Financial Statements

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KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

June 7, 2013

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

Report on the Financial Statements

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, 2012, and the related notes to the 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.

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 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Kent County Voluntary Employees' Beneficiary Association at December 31, 2012, and the change in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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, 2012, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed 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, 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 any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated May 7, 2013 on our consideration of the VEBA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the VEBA's internal control over financial reporting and compliance.

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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, 2012. 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, 2012 by $12,605,625 (reported as *net position).*
- The VEBA's funding objective is to meet its long-term benefit obligations through contributions and investment income. At December 31, 2012, (the date of the last actuarial valuation), the funded ratio was 25.7 percent.
- Additions to net position for the year ended December 31, 2012, were $3,042,190 which is comprised of contributions of $1,811,429 and investment income, net of investment expense of $1,230,761.
- Deductions from net position increased 9.46 percent from 2011 to 2012 (from $884,322 to $968,002), and were comprised primarily of healthcare subsidies paid to insurance providers on behalf of plan members.

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

This report consists of two financial statements: the *Statement of Plan Net Position* (page 8) and the *Statement of Changes in Plan Net Position* (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 Position* presents all of the VEBA's assets and liabilities with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the VEBA's financial position is improving or deteriorating. The *Statement of Changes in Plan Net Position* presents how the VEBA's net position 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, 2012, and 2011, were $12,841,241 and $10,741,045, respectively, and were comprised mainly of investments and receivables. Total assets increased $2,100,196 or 19.6 percent from December 31, 2011 to December 31, 2012, primarily due to advance funding based on actuarial calculations.

Total liabilities as of December 31, 2012, were $235,616, and consisted of accounts payable for retiree healthcare subsidies for the fourth quarter of 2012. Total liabilities increased $26,008 or 12.4 percent from December 31, 2011 to December 31, 2012, due to an increase in retiree healthcare subsidies.

VEBA assets exceeded its liabilities at the close of 2012 by $12,605,625.

	Net Position December 31, 2012	2011
Assets		
Cash	$ 339,702	$ 91,569
Receivables	80,216	83,139
Investments	12,421,323	10,566,337
Total assets	12,841,241	10,741,045
Liabilities		
Accounts payable	235,616	209,608
Total net position	$ 12,605,625	$ 10,531,437

Revenues - Additions to Plan Net Position

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 2012 and 2011 totaled $3,042,190 and $2,412,692, respectively.

Total contributions and net investment income increased $629,498 from 2011 to 2012 due to improved market conditions and increased investment returns.

Expenses - Deductions from Plan Net Position

The primary expenses of the VEBA include the healthcare stipends paid on behalf of members and beneficiaries and costs of administering the Plan. Total deductions for fiscal years 2012 and 2011 were $968,002 and $884,322, respectively.

Benefit payments increased by $90,796 or 10.6 percent from $857,521 to $948,317 from 2011 to 2012, respectively. This was primarily a result of an increase in the number of retirees receiving benefits.

Management's Discussion and Analysis

	Changes in Net Position	
	Year Ended December 31,	
	2012	2011
Additions		
Contributions	$ 1,811,429	$ 2,081,741
Net investment income	1,230,761	330,951
Total additions	3,042,190	2,412,692
Deductions		
Benefit payments	948,317	857,521
Administrative expenses	19,685	26,801
Total deductions	968,002	884,322
Change in net position	2,074,188	1,528,370
Net position, beginning of year	10,531,437	9,003,067
Net position, end of year	$ 12,605,625	$ 10,531,437

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 position. 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. The VEBA carefully monitors investment performance to achieve acceptable investment results.

- The estimated cash contribution rate for 2013 is 1.63 percent.

Contacting the VEBA's Financial Management

This financial report is designed to provide the public, citizens, and other interested 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 49503-2221.

FINANCIAL STATEMENTS

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Statement of Plan Net Position

December 31, 2012

Assets		
Cash		$ 339,702
Receivables		80,216
Investments, at fair value:		
Domestic equity mutual funds	$ 11,137,370	
International equity mutual funds	1,283,953	
Total investments		12,421,323
Total assets		12,841,241
Liabilities		
Accounts payable		235,616
Net position held in trust for other postemployment benefits (a schedule of funding progress is presented on page 18)		$ 12,605,625

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

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Statement of Changes in Plan Net Position
For the Year Ended December 31, 2012

Additions		
Employer contributions		$ 1,811,429
Investment income:		
Net appreciation in fair value of investments	$ 1,007,138	
Interest and dividends	265,941	
Total investment income	1,273,079	
Management fees	(42,318)	
Net investment income		1,230,761
Total additions		3,042,190
Deductions		
Benefit payments		948,317
Administrative expenses		19,685
Total deductions		968,002
Change in net position		2,074,188
Net position held in trust for other postemployment benefits:		
Beginning of year		10,531,437
End of year		$ 12,605,625

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

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NOTES TO FINANCIAL STATEMENTS

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

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, 2012, the date of the most recent actuarial valuation:

Retirees and beneficiaries currently receiving benefits	528
Active participants	1,608
Total membership	2,136

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 or 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. Employees who retire under a duty disability retirement are immediately eligible.

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 position.

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	$ 67,660
Interest receivable	12,556
Total	$ 80,216

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 account with one financial institution. As of year-end, $89,702 of the VEBA's bank balance of $339,702 was exposed to custodial credit risk because it exceeded FDIC insurance limits.

Notes to Financial Statements

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, 2012: (investments at fair value, as determined by quoted market price).

Investments at fair value	
Domestic equity mutual funds	$ 11,137,370
International equity mutual funds	1,283,953
Total investments	$ 12,421,323

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, 2012 was $1,283,953. 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, 2012, as the investments are all domestic and international mutual funds, the VEBA's investments held are not subject to interest rate risk.

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, 2012 was 1.82 percent of projected valuation payroll.

For the year ended December 31, 2012, employer contributions totaled $3,587,147 which included cash payments of $1,811,429 for current premiums and an implicit rate subsidy (which did not require cash) of $1,775,718. Cash payments included $948,317 for current premiums and an additional $863,112 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.

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, 2010, actuarial valuation (used to determine the contribution rates for the year ended December 31, 2012), 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 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, 2012, was thirty years.

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the Plan was 25.7 percent funded. The actuarial accrued liability for benefits was $48,975,067, and the actuarial value of assets was $12,605,625, resulting in an unfunded actuarial accrued liability (UAAL) of $36,369,442. The covered payroll (annual payroll of active employees covered by the Plan) was $91,421,357, and the ratio of the UAAL to the covered payroll was 39.8 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)
12/31/2010	$ 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%
12/31/2012	12,605,625	48,975,067	36,369,442	25.7%	91,421,357	39.8%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2010	$ 3,360,259	100%
2011	3,181,372	100%
2012	3,587,147	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*

May 7, 2013

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the *Kent County Voluntary Employees' Beneficiary Association* (an other postemployment benefits trust fund of the County of Kent, Michigan, the "VEBA"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the VEBA's basic financial statements, and have issued our report thereon dated May 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the VEBA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the VEBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the VEBA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the VEBA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the VEBA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Independent Auditors' Communication with Those Charged with Governance

June 7, 2013

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) for the year ended December 31, 2012, and have issued our report thereon dated June 7, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter dated February 1, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the VEBA's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and our meeting about planning matters on February 19, 2013.

Significant Results of the Audit

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 VEBA are described in Note 2 to the financial statements. The VEBA adopted Statement of Governmental Accounting Standards (GASB Statement) No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and No. 65, Items Previously Reported as Assets and Liabilities,* in the current year. While reclassifications of certain amounts were made in the balance sheets and terminology changed, there was no net effect of this change in accounting principle on beginning equity. We noted no transactions entered into by the VEBA 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 statements were:

- The assumptions used in the actuarial valuations of the Kent County Voluntary Employees' Beneficiary Association are based on historical trends and industry standards.

- Management's estimate of the valuation of certain investment securities recorded at fair value.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing 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. Attachment A to this letter summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Upcoming Changes in Accounting Standards

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment B to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

Disagreements with Management

For purposes 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.

Management Representations

We have requested certain representations from management that are included in the attached management representation letter dated June 7, 2013.

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 entity'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.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Kent County Voluntary Employees' Beneficiary Association and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Rehmann Robson LLC

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Attachment A - Schedule of Adjustments Passed (SOAP)
For the December 31, 2012 Audit

In accordance with auditing standards generally accepted in the United States of America, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

	Effect of Passed Adjustment - Over(Under)Statement				
	Assets	**Liabilities**	**Beginning Equity**	**Revenue**	**Expenses/ Expenditures**
Current year effect of not accruing for the fourth quarter management fee to Investment Advisors in 2011 (corrected in 2012)	$ -	$ -	$ 6,250	$ -	$ 6,250
Misstatement as a percentage of total assets	0.00%	0.00%	0.05%	0.00%	0.05%

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Attachment B – Upcoming Changes in Accounting Standards
For the December 31, 2012 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the VEBA in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the VEBA. For the complete text of these and other GASB standards, visit www.gasb.org and click on the "pronouncements" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

GASB 66 ■ 2012 Technical Corrections (an Amendment to GASB 10 and GASB 62)
Effective 12/15/2013 (your FY 2013)

This standard was issued to eliminate conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees.

We do not expect GASB 66 to have any significant impact on the VEBA at this time.

GASB 67 ■ Financial Reporting for Pension Plans
Effective 06/15/2014 (your FY 2014)

This standard establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government's fiscal year, or be rolled forward to that date by the actuary.

GASB 68 ■ Accounting and Financial Reporting for Pensions
Effective 06/15/2015 (your FY 2015)

This standard establishes new requirements for governments to report a "net pension liability" for the unfunded portion of its pension plan. Governments that maintain their own pension plans (either single employer or agent multiple-employer) will report a liability for the difference between the total pension liability calculated in accordance with GASB 67 and the amount held in the pension trust fund. Governments that participate in a cost sharing plan will report a liability for their "proportionate share" of the net pension liability of the entire system.

Historically, governments have only been required to report a net pension obligation to the extent that they have not met the annual required contribution (ARC) in any given year. Upon implementation of this standard, governments will be required to report a net pension liability based on the current funded status of their pension plans.

Changes in this liability from year to year will largely be reflected on the income statement, though certain amounts will be deferred and amortized over varying periods.

GASB 68 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. For single-employer and agent multiple-employer plans, the information for these statements will come from the annual actuarial valuation. For cost sharing plans, this information will be derived from the financial reports of the plan itself, multiplied by the government's proportionate share of plan.

GASB 67 and 68 are only applicable to pension plans. However, the GASB has announced its intent to issue similar standards for other postemployment benefits (e.g., retiree healthcare) on a two year delay from these standards.

GASB 69 ■ Government Combinations and Disposals of Government Operations
Effective 12/15/2014 (your FY 2014)

This standard provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity.

Given the infrequent nature of these types of events, we do not expect this standard to have any impact on the VEBA at this time.

GASB 70 ■ Nonexchange Financial Guarantees
Effective 06/15/2014 (your FY 2014)

This standard addresses the accounting and disclosure of situations in which one government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). A government that extends a nonexchange financial guarantee will be required to recognize a liability when qualitative factors and/or historical data indicate that it is "more likely than not" that the government will be required to make a payment on the guarantee. It further requires governments to disclose any outstanding financial guarantees in the notes to the financial statements.

We do not expect GASB 70 to have any significant impact on the VEBA at this time.

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FISCAL SERVICES

Stephen W. Duarte, MBA, Director

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June 7, 2013

Rehmann Robson
2330 East Paris Avenue SE
Grand Rapids, MI 49546

We are providing this letter in connection with your audit of 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 December 31, 2012 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the VEBA and the change in financial position in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, as of June 7, 2013, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and the notes include all disclosures required by laws and regulations to which the VEBA is subject.

2. We have made available to you all—

    a. Financial records and related data.

    b. Minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared.

    c. Plan instruments, trust agreements, insurance contracts, or investment contracts and amendments to such documents entered into during the year, including amendments to comply with applicable laws.

    d. Actuarial reports prepared by the VEBA during the year.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management,

   b. Employees who have significant roles in internal control, or

   c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9. We have a process to track the status of audit findings and recommendations.

10. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

11. The VEBA has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity. The VEBA has no intentions of terminating the plan.

12. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

       For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

    b. Guarantees, whether written or oral, under which the VEBA is contingently liable.

    c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.

13. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

14. There are no—

    a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

    b. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with generally accepted accounting principles, and we have not consulted a lawyer concerning litigation, claims, or assessments.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.

15. There were no omissions from the participants' data provided to the VEBA's actuary for the purpose of determining the actuarial present value of the VEBA's benefit obligations and the other actuarially determined amount in the financial statements.

16. The VEBA administrator agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the VEBA's benefit obligations and has no knowledge or belief that such methods or assumptions are inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the VEBA's actuary with respect to the values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the VEBA's actuary.

17. The following have been properly recorded and disclosed in the financial statements:

    a. The actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.

    b. VEBA provisions between the actuarial valuation date and the date of this letter.

18. All required filings of VEBA documents with the appropriate agencies have been made.

19. The VEBA (and the trust established under the VEBA) is qualified under the appropriate section of the internal revenue Code and we intend to continue it as a qualified plan (and trust). The VEBA sponsor has operated the VEBA in a manner that did not jeopardize this tax status.

20. The VEBA has complied with the Department of Labor's regulations concerning the timely remittance of participants' contributions to trusts containing assets of the VEBA.

21. VEBA management has obtained and reviewed relevant service auditor's SOC 1 reports and management is performing the applicable user controls.

22. As part of your audit, you assisted with preparation of the financial statements and related notes. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.

23. The VEBA has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

24. The VEBA has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

25. Deposits and investments are properly classified as to risk and are properly disclosed.

26. We acknowledge our responsibility for the required supplementary information (RSI). The required supplementary information is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

27. We have evaluated the VEBA's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.

28. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Daryl Delabbio, County Administrator/Controller

Stephen W. Duarte, Fiscal Services Director