

Kent County
Voluntary
Employees'
Beneficiary
Association



Year Ended
December 31,
2015

Financial
Statements

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

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INDEPENDENT AUDITORS' REPORT

June 15, 2016

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, 2015, and the related notes to the financial statements, which collectively comprise the VEBA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 as of December 31, 2015, and the change in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements 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, 2015, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 June 15, 2016 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.

Rehmann Johnson LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

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, 2015. 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, 2015 by \$17,140,234 (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, 2015, (the date of the last actuarial valuation), the funded ratio was 31.1%.
- Additions to net position for the year ended December 31, 2015, were \$1,786,734 which is comprised of contributions of \$1,635,907, investment income, net of investment expense, of \$114,378, and other revenue of \$36,449.
- Deductions from net position increased 9.3% from 2014 to 2015 (from \$1,236,508 to \$1,351,721), and were comprised primarily of healthcare subsidies paid to insurance providers on behalf of plan members.

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

This report consists of two financial statements: the *Statement of Fiduciary Net Position* (page 8) and the *Statement of Changes in Fiduciary 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 Fiduciary 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 Fiduciary 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, 2015, and 2014, were \$17,140,499 and \$16,711,471, respectively, and were comprised mainly of investments and receivables. Total assets increased \$429,028 or 2.6% from December 31, 2014 to December 31, 2015, primarily due to advance funding based on actuarial calculations.

VEBA assets exceeded its liabilities at the close of 2015 by \$17,140,234.

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Management's Discussion and Analysis

	Net Position	
	December 31,	
	2015	2014
Assets		
Cash	\$ 603,115	\$ 281,788
Receivables	53,529	84,317
Investments	16,483,855	16,345,366
	<hr/>	<hr/>
Total assets	17,140,499	16,711,471
Liabilities		
Accounts payable	265	6,250
	<hr/>	<hr/>
Net position	<u>\$ 17,140,234</u>	<u>\$ 16,705,221</u>

Revenues - Additions to Fiduciary Net Position

The reserves needed to finance postemployment healthcare benefits are accumulated primarily through the collection of employer contributions and earnings on investments. Additions to fiduciary net position for 2015 and 2014 totaled \$1,786,734 and \$2,763,390, respectively.

Total additions to fiduciary net position decreased \$976,656 from 2014 to 2015, primarily due to changes in market conditions and decreased investment returns.

Expenses - Deductions from Fiduciary 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 2015 and 2014 were \$1,351,721 and \$1,236,508, respectively.

Benefit payments increased \$113,963 from 2014 to 2015, primarily due to an increase in the number of retirees receiving benefits.

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Management's Discussion and Analysis

	Changes in Net Position	
	Year Ended December 31,	
	2015	2014
Additions		
Contributions	\$ 1,635,907	\$ 1,674,191
Net investment income	114,378	1,055,022
Other revenue	36,449	34,177
Total additions	<u>1,786,734</u>	<u>2,763,390</u>
Deductions		
Benefit payments	1,319,621	1,205,658
Administrative expenses	32,100	30,850
Total deductions	<u>1,351,721</u>	<u>1,236,508</u>
Change in net position	435,013	1,526,882
Net position, beginning of year	<u>16,705,221</u>	<u>15,178,339</u>
Net position, end of year	<u>\$ 17,140,234</u>	<u>\$ 16,705,221</u>

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 2016 is 1.66% of covered payroll.

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 Fiduciary Net Position

December 31, 2015

Assets	
Cash	\$ 603,115
Receivables	53,529
Investments, at fair value:	
Domestic equity mutual funds	\$ 7,510,013
International equity mutual funds	2,779,323
Domestic fixed income mutual funds	4,066,995
International fixed income mutual funds	2,127,524
Total investments	<u>16,483,855</u>
Total assets	17,140,499
Liabilities	
Accounts payable	<u>265</u>
Net position restricted for other postemployment benefits (a schedule of funding progress is presented on page 18)	<u><u>\$ 17,140,234</u></u>

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

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2015

Additions	
Employer contributions	\$ 1,635,907
Investment income:	
Net depreciation in fair value of investments	\$ (270,610)
Interest and dividends	<u>436,392</u>
Total investment income	165,782
Investment expense	<u>(51,404)</u>
Net investment income	114,378
Other revenue	<u>36,449</u>
Total additions	<u>1,786,734</u>
Deductions	
Benefit payments	1,319,621
Administrative expenses	<u>32,100</u>
Total deductions	<u>1,351,721</u>
Change in net position	435,013
Net position, beginning of year	<u>16,705,221</u>
Net position, end of year	<u>\$ 17,140,234</u>

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, 2015, the date of the most recent actuarial valuation:

Retirees and beneficiaries currently receiving benefits	590
Active participants	<u>1,562</u>
Total membership	<u><u>2,152</u></u>

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 employees, elected officials, including judges, and ten 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 is equal to \$350 per month. 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, Circuit Court Referees, 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. VEBA members of the Deputy Sheriff's bargaining unit hired on or after January 1, 2013 are eligible to receive this benefit at age 62 with 5 years of service or age 55 with 25 years of service. The subsidy is prorated for service less than 25 years. An employee that retires 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 fiduciary net position.

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Notes to Financial Statements

2. SUMMARY OF 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 earned. 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 receivables consisted of contributions due to the VEBA from active employees, but not paid until after year end.

Payables

Accounts payable is comprised of an amount due to the County for audit services provided during the 2015.

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 money market account with one financial institution. As of year-end, \$353,115 of the VEBA's bank balance of \$603,115 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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.

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Notes to Financial Statements

The VEBA's investments are held in six portfolios administered by six investment managers. Following is a summary of the VEBA's investments as of December 31, 2015: (investments at fair value, as determined by quoted market price).

Investments at fair value	
Domestic equity mutual funds	\$ 7,510,013
International equity mutual funds	2,779,323
Domestic fixed income mutual funds	4,066,995
International fixed income mutual funds	<u>2,127,524</u>
 Total investments	 <u>\$ 16,483,855</u>

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. Equity mutual funds are not subject credit risk. Credit risk ratings of the VEBA's fixed income mutual funds at year-end are summarized as follows:

	Domestic Fixed Income	International Fixed Income	Total
Fixed income mutual funds			
Morningstar 4 stars	\$ 4,066,995	\$ -	\$ 4,066,995
Unrated	-	2,127,524	2,127,524
	<u>\$ 4,066,995</u>	<u>\$ 2,127,524</u>	<u>\$ 6,194,519</u>
Total fixed income mutual funds			

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 core 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% of the portfolio shall be invested in the obligations of any one issuer. For domestic equity portfolios, no single company's securities should represent more than 5% at cost or 7% at market value of the individual manager's portfolio. For the VEBA's large cap equity portfolio, no single company's security should represent more than 1% plus the benchmark weight at the time of purchase of the individual manager's portfolio. At December 31, 2015, none of the VEBA's mutual funds were invested in a single issuer exceeding the policy limits.

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Notes to Financial Statements

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. The County monitors its exposure to foreign currency risk through a quarterly performance report. The VEBA's exposure to foreign currency risk as of December 31, 2015 was \$4,906,847. This amount was comprised of international equity mutual funds and international fixed income 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% of the duration of the stated benchmark (which varies by portfolio). Investments in equity mutual funds are comprised of securities with no stated maturity date. Accordingly, such investments are deemed to have an average duration of zero years. The VEBA's investments in fixed income mutual funds have average durations ranging from 4.23 to 7.86 years, all within 120% of the duration of the stated benchmark.

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, 2015 was 1.57% of projected valuation payroll.

For the year ended December 31, 2015, employer contributions of \$3,403,504 were made in accordance with actuarially determined requirements, completed through an actuarial valuation performed as of December 31, 2013. The County's contributions included cash payments of \$1,635,907 and an implicit rate subsidy (which did not require cash) of \$1,767,597. Cash payments included \$1,319,621 for current premiums and an additional \$316,286 to prefund benefits.

Years Ended December 31,	Three-Year Trend Information		
	Annual OPEB Cost (APC)	Percentage Contributed	Net OPEB Obligation
2013	\$ 3,227,728	100%	-
2014	3,412,730	100%	-
2015	3,403,504	100%	-

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.

KENT COUNTY VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATION

Notes to Financial Statements

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, 2013, actuarial valuation (used to determine the contribution rates for the year ended December 31, 2015), the entry age actuarial cost method was used. The actuarial assumptions included a 7.5% 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% initially, reduced by decrements to an ultimate rate of 4% over 11 years. Both rates included a 4% 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, 2015, the most recent actuarial date, was 30 years.

Funded Status and Funding Progress. As of December 31, 2015, the most recent actuarial valuation date, the Plan was 31.1% funded. The actuarial accrued liability for benefits was \$55,167,726, and the actuarial value of assets was \$17,140,234, resulting in an unfunded actuarial accrued liability (UAAL) of \$38,027,492. The covered payroll (annual payroll of active employees covered by the Plan) was \$96,580,051, and the ratio of the UAAL to the covered payroll was 39.4%.

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.



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)
12/31/2013	\$ 15,178,339	\$ 50,174,616	\$ 34,996,277	30.3%	\$ 91,589,536	38.2%
12/31/2014	16,705,220	52,899,776	36,194,556	31.6%	90,860,847	39.8%
12/31/2015	17,140,234	55,167,726	38,027,492	31.1%	96,580,051	39.4%

Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contributions	Percentage Contributed
2013	\$ 3,227,728	100%
2014	3,412,730	100%
2015	3,403,504	100%

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 15, 2016

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, 2015, and the related notes to the financial statements, which collectively comprise the VEBA's basic financial statements, and have issued our report thereon dated June 15, 2016.

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.

Rehmann Lobson LLC