

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|--------------------------------|--|---------------------|
| Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Washtenaw County - VEBA | County Washtenaw |
| Fiscal Year End December 31, 2006 | Opinion Date March 15, 2007 | Date Audit Report Submitted to State March 22, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

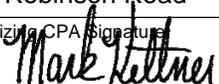
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
|--|-------------------------------------|--|---------------------------------|
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | Not Applicable | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) REHMANN ROBSON | | Telephone Number 517-787-6503 | |
| Street Address 675 Robinson Road | | City Jackson | State Zip MI 49203 |
| Authorizing CPA Signature  | | Printed Name Mark T. Kettner, CPA, CGFM | |
| | | License Number 11673 | |

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES
BENEFICIARY ASSOCIATION**

Financial Statements

**For The Years Ended
December 31, 2006 and 2005**



REHMANN ROBSON

Certified Public Accountants

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

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REHMANN ROBSON

Certified Public Accountants

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 an independent member of
BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

March 15, 2007

To the Board of Trustees of the Washtenaw County
Voluntary Employees Beneficiary Association
Ann Arbor, Michigan

We have audited the accompanying statements of plan net assets of the *Washtenaw County Voluntary Employees Beneficiary Association* (the "Association") as of December 31, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Voluntary Employees Beneficiary Association healthcare benefits trust fund and do not purport to, and do not, present fairly the financial position of Washtenaw County as of December 31, 2006 and 2005, and the changes in its financial position for the years 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 Association's net assets held in trust for healthcare benefits at December 31, 2006 and 2005, and changes therein for the years then ended in conformity with accounting principles generally accepted in the United States of America.



FINANCIAL STATEMENTS

WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION
Statements of Plan Net Assets
December 31, 2006 and 2005

| | 2006 | 2005 |
|---|----------------------|----------------------|
| Assets | | |
| Investments, at fair value | | |
| Equities | \$ 30,030,960 | \$ 24,882,042 |
| United States treasuries | 150,635 | 335,621 |
| United States treasury strips | 289,605 | 418,041 |
| United States agencies | 255,808 | 610,570 |
| Corporate securities | 492,063 | 425,243 |
| Bond mutual fund | 7,398,912 | 6,469,724 |
| Money market funds | 4,575,503 | 2,571,621 |
| Total investments | 43,193,486 | 35,712,862 |
| Cash and cash equivalents | 528,484 | - |
| Accounts receivable | 49,738 | - |
| Total assets | 43,771,708 | 35,712,862 |
| Liabilities | | |
| Accrued liabilities | 19,667 | 13,896 |
| <u>Net Assets Held in Trust</u> <u>for Healthcare Benefits</u> | \$ 43,752,041 | \$ 35,698,966 |

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

WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION
Statements of Changes in Plan Net Assets
For the Years Ended December 31, 2006 and 2005

| | 2006 | 2005 |
|--|----------------------|----------------------|
| Additions to net assets | | |
| Contributions | | |
| Employer | \$ 7,855,525 | \$ 6,039,693 |
| On behalf - federal Medicare Part D subsidy | 180,362 | - |
| Total contributions | 8,035,887 | 6,039,693 |
| Investment income: | | |
| Interest and dividends | 998,911 | 856,790 |
| Appreciation in fair value of investments | 3,966,835 | 1,866,911 |
| Total investment income | 4,965,746 | 2,723,701 |
| Investment management fees | (228,700) | (211,145) |
| Net investment income | 4,737,046 | 2,512,556 |
| Total additions to net assets | 12,772,933 | 8,552,249 |
| Deductions from net assets | | |
| Participant benefits | 4,600,201 | 5,161,271 |
| Administrative expenses | 119,657 | 110,212 |
| Total deductions from net assets | 4,719,858 | 5,271,483 |
| Increase in net assets | 8,053,075 | 3,280,766 |
| Net assets held in trust for healthcare benefits, beginning of year | 35,698,966 | 32,418,200 |
| Net assets held in trust for healthcare benefits, end of year | \$ 43,752,041 | \$ 35,698,966 |

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

WASHTENAW COUNTY VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION

Notes To Financial Statements

1. PLAN DESCRIPTION AND CONTRIBUTION INFORMATION

The Washtenaw County Voluntary Employees Beneficiary Association (VEBA; the "Association") is a single-employer defined benefit postemployment healthcare plan established and administered by Washtenaw County (the "County") to provide medical and healthcare benefits for retirees and their beneficiaries. Eligible participants include any retirees who receive pension benefits under one of the County's pension plans. Association provisions are established and may be amended by the Washtenaw County Board of Commissioners, subject to the County's various collective bargaining agreements.

The Association 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 a pension and other employee benefits trust fund in the County's financial statements.

Subject to certain age and length of service requirements, eligible participants receive the same or comparable medical insurance coverage under the Association as was in effect at the time of their employment. At such time that participants become Medicare eligible, the benefits under the Association change to Medicare Supplemental coverage.

Employer and employee contribution requirements are established by the Washtenaw County Board of Commissioners. For 2006 and 2005, employee contributions were not required. Employer contributions for 2006 and 2005 were intended to be at a level that exceeds the current cost of benefits and, therefore, build the trust for purposes of paying future benefits, but not at the actuarially determined rate. The actual contributions rates for 2006 and 2005 were 10.38% and 8.48%, respectfully, whereas the actuarial contribution rates were 15.61% and 8.48%, respectfully. (Please note that the actuarial contribution rate of 8.48% for 2005, which was determined as part of an actuarial valuation as of December 31, 2003, is not GASB 43 compliant; accordingly, it is presented here for comparative purposes only.) In the event that trust assets are not sufficient to pay for benefits, the employer is required to contribute the additional amounts necessary to provide the benefits. For 2006 and 2005, no additional contributions were required nor were any benefits paid directly by the employer on a pay-as-you-go basis.

Association membership consisted of the following at December 31, 2006:

| | |
|---|-------|
| Retirees and beneficiaries currently receiving benefits | 629 |
| Terminated employees entitled to but not yet receiving benefits | 26 |
| Vested active participants | 1,388 |

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

Notes To Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting. The Association's financial statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized in the period that the contributions are due and, for employer contributions, when the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the trust agreement.

Method Used to Value Investments. Association investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

Administration – Administrative costs are financed through the Association's investment earnings.

3. INVESTMENTS

The Michigan Public Employees Retirement Systems' Investment Act, Public Act 314 of 1965, as amended, authorizes the Association to invest in stocks, government and corporate securities, mortgages, real estate, and various other investment instruments, subject to certain limitations.

The Association's investments are held by an independent investment management company. Following is a summary of the Association's investments as of December 31:

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------------|-----------------------------|
| Investments at fair value, as determined by quoted market prices: | | |
| Equities | \$ 30,030,960 | \$ 24,882,042 |
| United States treasuries | 150,635 | 335,621 |
| United States treasury strips | 289,605 | 418,041 |
| United States agencies | 255,808 | 610,570 |
| Corporate securities | 492,063 | 425,243 |
| Bond mutual fund | 7,398,912 | 6,469,724 |
| Money market funds | <u>4,575,503</u> | <u>2,571,621</u> |
| Total investments | <u>\$ 43,193,486</u> | <u>\$ 35,712,862</u> |

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

Notes To Financial Statements

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Association's investment policy provides that all of its investments in fixed income securities be rated "A+" or better by a nationally recognized statistical rating organization, except for United States treasury securities which are explicitly guaranteed by the U.S. government and not considered to have credit risk.

As of December 31, 2006, the Association's investments in securities of U.S. agencies and the bond mutual fund are rated AAA by Standard & Poor's. The Association's investments in corporate securities are rated by Standard & Poor's as follows:

| | | |
|-----------|-----------|----------------|
| B+ | \$ | 109,773 |
| CCC+ | | 247,560 |
| Not Rated | | 134,730 |
| | <u>\$</u> | <u>492,063</u> |

The Association's investments in money market funds are also rated AAA by Standard & Poor's.

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 Association will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Association's investment policy does not address custodial credit risk. Although uninsured and unregistered, the Association's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department in the Association's name.

Short-term investments in money market funds and open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the Association's investment in a single issuer. The Association's investment policy requires that no more than ten percent of its assets be invested in money market funds or short-term U.S. treasuries, no more than five percent in any one issuer and no more than twenty percent in any one industry.

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

Notes To Financial Statements

At December 31, 2006, the Association's investment portfolio was not exposed to concentration credit risk.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Association's investment policy provides that the weighted average maturity of its fixed income portfolio may not exceed 10 years.

As of December 31, 2006, maturities of the Association's debt securities were as follows:

| | <u>Fair Value</u> | <u>Investment Maturities (fair value by years)</u> | | | <u>More Than 10</u> |
|----------------------|----------------------------|--|-------------------------|--------------------------|--------------------------|
| | | <u>Less Than 1</u> | <u>1-5</u> | <u>6-10</u> | |
| U.S. treasuries | \$ 150,635 | \$ - | \$ - | \$ - | \$ 150,635 |
| U.S. treasury strips | 289,605 | - | - | - | 289,605 |
| U.S. agencies | 255,808 | - | 33,983 | - | 221,825 |
| Corporate securities | 492,063 | 209,168 | 30,473 | 252,422 | - |
| | <u>\$ 1,188,111</u> | <u>\$ 209,168</u> | <u>\$ 64,456</u> | <u>\$ 252,422</u> | <u>\$ 662,065</u> |

The bond mutual fund has a weighted average maturity of 5.54 years as of December 31, 2006. Of the above balances, \$125,327 of the U.S. treasuries and all of the corporate securities are callable.

The Association's portfolio of U.S. agencies securities includes one inverse variable-rate note with a par value of \$50,000 that matures November, 2008. The fair value of the note as of December 31, 2006 was \$4,321. The amount of the monthly coupon is calculated at negative 2.592 times the Eleventh District Monthly Weighted Average Cost of Funds Index (San Francisco) plus 18.144%, with a cap of 18.144%; thus, as interest rates increase, the coupon rate paid declines. The frequency of the coupon's reset date is monthly.

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

Notes To Financial Statements

4. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Association as of December 31, 2005, the date of the most recent actuarial valuation, is as follows:

| | | | |
|-----------------------------------|-----|------------------------------|-----------|
| Actuarial accrued liability (AAL) | (1) | \$ 149,890,222 | |
| Actuarial value of assets | (2) | <u>31,646,289</u> | |
| Unfunded AAL (UAAL) | (3) | <u><u>\$ 118,243,933</u></u> | (1) - (2) |
| | | | |
| Funded ratio | (4) | <u><u>21.1%</u></u> | (2) / (1) |
| | | | |
| Covered payroll | (5) | <u><u>\$ 71,477,954</u></u> | |
| | | | |
| UAAL as % of covered payroll | (6) | <u><u>165.4%</u></u> | (2) / (5) |

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, mortality, and the healthcare cost trend. 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 schedules 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 trust assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions present trend information about the amounts contributed to the Association by the employer in comparison to the ARC (annual required contribution), an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

Notes To Financial Statements

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and 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. Additional information as of the latest actuarial valuation include:

| | |
|-------------------------------|----------------------------|
| Valuation date | 12/31/05 |
| Actuarial cost method | Entry age |
| Amortization period | Level percent of pay, open |
| Remaining amortization period | 26 years |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 8.0% |
| Projected salary increases | 5.0% |
| Healthcare cost trend rate | 10% initial 5% ultimate |

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

**WASHTENAW COUNTY
VOLUNTARY EMPLOYEES BENEFICIARY ASSOCIATION**

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

| (1) | (2) | (3) | (4) | (5) | (6) | |
|---|--|--|--|-----------------------------------|----------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) - Entry Age | Unfunded AAL (UAAL) (2-1) | Funded Ratio (1/2) | Covered Payroll | UAAL as a % of Covered Payroll (3/5) |
| 12/31/04 | \$ 30,159,739 | \$ 150,053,560 | \$ 119,893,821 | 20.1% | \$ 69,804,470 | 171.8% |
| 12/31/05 | 31,646,289 | 149,890,222 | 118,243,933 | 21.1% | 71,477,954 | 165.4% |

**SCHEDULE OF CONTRIBUTIONS FROM THE
EMPLOYER AND OTHER CONTRIBUTING ENTITY**

| Year Ended | Annual Required Contribution | Annual Actual Contribution | Percentage Contributed |
|-----------------------|---|---|-----------------------------------|
| 2006 | \$ 12,013,367 | \$ 8,035,887 | 66.9% |