

**Harford County, Maryland
Volunteer Firefighter Length of
Service Award Program**

**Financial Statements and Supplemental Schedules
Together with Report of Independent Public Accountants**

For the Year Ended June 30, 2008



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

June 30, 2008

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Harford County, Maryland
Volunteer Firefighter Length of Service Award Program

We have audited the accompanying statement of plan net assets of Harford County, Maryland Volunteer Firefighter Length of Service Award Program (the Plan), a pension trust fund of Harford County, Maryland, as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the plan net assets of the Harford County, Maryland Volunteer Firefighter Length of Service Award Program as of June 30, 2008, and the changes in its plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SB's Company, LLC

Hunt Valley, Maryland
October 15, 2008

**HARFORD COUNTY, MARYLAND
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARD PROGRAM**

**Statement of Plan Net Assets
As of June 30, 2008**

Assets	
Cash equivalents	\$ 102,404
Equity in pooled cash and investments	196,978
Investments, at fair value	
Fixed income fund	5,545,735
Equities	6,019,845
Total Investments	<u>11,565,580</u>
Total Assets	11,864,962
Liabilities	
Accounts payable	<u>14,051</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 11,850,911</u>

The accompanying notes are an integral part of this financial statement.

**HARFORD COUNTY, MARYLAND
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARD PROGRAM**

**Statement of Changes in Plan Net Assets
For the Year Ended June 30, 2008**

Additions

Contributions	
Plan sponsor	\$ 1,387,771
Investment earnings	
Net depreciation in fair value of investments	(1,069,996)
Interest and dividends	599,349
Total Investment Earnings	<u>(470,647)</u>
Less investment expense	<u>(97,126)</u>
Net Investment Income	<u>(567,773)</u>
Total Additions	<u>819,998</u>

Deductions

Administrative expenses	10,528
Benefits	1,019,244
Total Deductions	<u>1,029,772</u>

Change in net assets	(209,774)
Net assets, beginning of year	<u>12,060,685</u>
Net assets, End of Year	<u>\$ 11,850,911</u>

The accompanying notes are an integral part of this financial statement.

**HARFORD COUNTY, MARYLAND
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARE PROGRAM**

**Notes to the Financial Statements
June 30, 2008**

1. BACKGROUND OF ORGANIZATION

Harford County (the County) instituted and began administering a single employer defined benefit length of service award program (LOSAP or the Plan), for volunteer firemen and ambulance personnel on January 31, 1975. LOSAP is considered part of the County's financial reporting entity and is included in the County's financial statements as a pension trust fund.

This Length of Service Award Program (LOSAP) is different from traditional qualified retirement plans. There is a special section in the Internal Revenue Code covering these plans: section 457(e)(11). The County's plan meets the requirements of this section, which means the payments to the fire fighters are not treated as "wages"; and, because the County is an "eligible employer," as defined by the IRS, the Plan is tax exempt.

Based on County statutes, the firemen and ambulance personnel are eligible to participate upon accumulating "50 (fifty) points," which are determined in accordance with a specific point system. Benefits vest upon 25 years of service credit. The Plan generally provides \$1,000 burial benefits and certain benefits for disability. Regular benefits are calculated at \$12 per month for each of the first 25 years of service plus \$56 per month for each year in excess of 25. The maximum benefit is \$450 per month. Normal form of benefit is a life annuity for the volunteer with a 50% survivor benefit for the spouse of the volunteer.

The membership data related to the Volunteer Firefighter (LOSAP) plan as of June 30, was as follows:

<u>Plan Participants</u>	
Retirees and beneficiaries currently receiving benefits	334
Terminated plan members entitled to, but not yet receiving benefits	265
Active plan members	<u>1,097</u>
Total	<u>1,696</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The LOSAP plan uses the accrual basis of accounting. County contributions are recognized in the period in which cash contributions are made. Benefits are recorded when the payments are made.

**HARFORD COUNTY, MARYLAND
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARE PROGRAM**

**Notes to the Financial Statements
June 30, 2008**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Method Used to Value Investments

Investments are reported at fair market value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The County has hired an investment firm to manage the investments of the Volunteer Fireman's LOSAP plan.

Interest Rate Risk

The investment policies of the pension plans do not limit investment maturities. Fluctuating rates of return are characteristic of the securities markets; the fund's greatest concern is long-term appreciation of assets and consistency of portfolio returns. Cash and cash equivalent investments, such as commercial paper, repurchase agreements, etc. are limited to maturities of three months or less.

Credit Risk

The investment manager is allowed substantial discretion within a broad framework of approved investment choices. Equity holdings may be selected from those listed on the major securities markets. The Manager may purchase commercial paper, medium term notes, and public debt securities, with short-term ratings of A-2 or P-2 or better or long-term ratings of AA or better by either Moody's or Standard and Poor's. Fixed income securities, such as obligations of the U.S. Government and its agencies, corporate debt securities, exchange traded fixed income funds, etc. shall be investment grade as defined by Moody's or Standard and Poor's. The maximum ratings allocations of U.S. Government Agencies and corporate bond investments as of June 30, 2008, are as follows:

Rating	Maximum Allocation	Allocation as of June 30, 2008
AAA/Aaa	100%	59%
AA/Aa	50%	18%
A/A	50%	16%
BAA/Baa	20%	7%

**HARFORD COUNTY, MARYLAND
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARD PROGRAM**

Notes to the Financial Statements
June 30, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk

As a means of minimizing risk and providing a consistent return, the investment policies require diversification. U.S. corporate bonds shall be diversified by issuer type with no more than 5% of the portfolio invested in obligations of any one issuer and no more than 10% in any one outstanding debt issue. Investments by security type are to be diversified as follows:

Rating	Firemen's Pension	
	Minimum	Maximum
Large cap equities	20%	50%
Small cap equities	-	10%
International equities	-	10%
Fixed income	40%	60%
Cash and equivalents	-	5%

3. CONTRIBUTIONS AND FUNDING POLICY

Under provisions of County statutes, the County must provide annual contributions sufficient to satisfy the actuarially determined contribution requirements. Periodic County contributions to the pension plan are determined by an actuarially determined rate. Since there are no "salaries", the rate cannot be expressed as a percentage of covered payrolls. There are no participant financed benefits in this plan.

Annual Pension Cost (APC) and Net Pension Obligation (NPO) to Harford County for this LOSAP are as follows:

Annual required contribution	\$ 1,387,771
Contributions made	<u>1,387,771</u>
Net pension obligation, beginning and end of the year	<u>\$ -</u>

**HARFORD COUNTY, MARYLAND
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARD PROGRAM**

**Notes to the Financial Statements
June 30, 2008**

3. CONTRIBUTIONS AND FUNDING POLICY (continued)

The annual required contribution for the year ended was determined as part of the September 30, 2007, actuarial valuation using the entry age normal funding method, with a 20-year amortization of the unfunded liability. Under this method, a normal cost is calculated which would, if contributed annually, fund each volunteer's benefits during his or her career at a level dollar amount. The unfunded actuarial liability is calculated at each valuation date as the present value of all plan benefits, less current assets. The actuarial assumptions included a 6% investment rate of return compounded annually. The Firemen are voluntary and, therefore, would not have a projected salary increase. The actuarial value of assets was determined using market value as of June 30, 2007, plus adjustments to September 30, 2007. Three years of trend information is as follows:

Fiscal year ending	Annual pension cost (APC)	% of APC contributed	Net Pension Obligation
2006	\$ 946,098	100%	None
2007	1,046,218	100%	None
2008	1,387,771	100%	None

4. REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information is designed to provide information about the Plan's progress in accumulating sufficient assets to pay benefits when due. Ten years of trend data is presented as required supplementary information.

SUPPLEMENTAL INFORMATION

**HARFORD COUNTY, MARYLAND
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARD PROGRAM**

**Schedule of Funding Progress (unaudited)
June 30, 2008**

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Percentage funded (1)/(2)	Unfunded AAL (UAAL) (2)-(1)	Covered payroll	UAAL as a percentage of covered payroll ((2-1)/5)
9/30/1998	\$ 5,936,473	\$ 11,746,201	50.5%	\$ 5,809,728	N/A	N/A
9/30/1999	6,569,795	14,209,376	46.2% ¹	7,639,581	N/A	N/A
9/30/2000	7,886,767	15,552,845	50.7%	7,666,078	N/A	N/A
9/30/2001	8,470,544	14,546,676	58.2%	6,076,132	N/A	N/A
9/30/2002	8,083,173	14,581,593	55.4%	6,498,420	N/A	N/A
9/30/2003	8,446,607	15,393,166	54.9%	6,946,559	N/A	N/A
9/30/2004	9,810,134	17,532,517 ²	56.0%	7,722,383	N/A	N/A
9/30/2005	10,692,198	20,867,164	51.2%	10,174,966	N/A	N/A
9/30/2006	11,620,886	21,928,036	53.0%	10,307,150	N/A	N/A
9/30/2007	13,307,771	24,290,687	54.8%	10,982,916	N/A	N/A

N/A – Not applicable because the volunteers are not compensated.

- 1 The decrease in the funded ratio was caused by the plan amendment in 1999 that improved benefits by 20%.
- 2 After the change in mortality assumptions.

**HARFORD COUNTY, MARYLAND
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARD PROGRAM**

**Schedule of Employer Contributions (unaudited)
June 30, 2008**

Year ended June 30,	Annual required contribution	Percentage contributed
1999	\$ 848,253	100%
2000	881,218	100%
2001	1,124,673	100%
2002	1,124,673	100%
2003	985,500	100%
2004	985,500	100%
2005	1,354,883	100%
2006	946,098	100%
2007	1,046,218	100%
2008	1,387,771	100%

The information presented in the required supplemental schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Valuation date	September 30, 2007
Actuarial cost method	Entry age
Amortization method	Level dollar
Remaining amortization period	15 years (closed period)
Asset valuation method	Market value as of June 30, 2007, plus estimated transactions from June 30, 2007 to September 30, 2007
Actuarial assumptions:	
Investment rate of return	6% compounded annually