

**Harford County, Maryland
Sheriff's Office Pension System**

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

For the Year Ended June 30, 2009



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

June 30, 2009

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
Harford County, Maryland
Sheriff's Office Pension System

We have audited the accompanying statement of plan net assets of Harford County, Maryland Sheriff's Office Pension System (the Plan), a pension trust fund of Harford County, Maryland, as of June 30, 2009, and the related statement of change 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Sheriffs Office Pension System as of June 30, 2009, and the change 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.

Hunt Valley, Maryland
October 15, 2009

SB's Company, LLC

**HARFORD COUNTY, MARYLAND
SHERIFF'S OFFICE PENSION SYSTEM**

**Statement of Plan Net Assets
As of June 30, 2009**

Assets

Equity in pooled cash and investments	\$ 65,280
Investments, at fair value	
Cash equivalents	425,620
Fixed income fund	8,838,239
Equities and equivalents	<u>16,806,165</u>
Total Investments	<u>26,070,024</u>
Total Assets	<u>26,135,304</u>

Liabilities

Accounts payable	<u>24,627</u>
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Net Assets Held in Trust for Pension Benefits	<u>\$ 26,110,677</u>
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The accompanying notes are an integral part of this financial statement.

**HARFORD COUNTY, MARYLAND
SHERIFF'S OFFICE PENSION SYSTEM**

**Statement of Change in Plan Net Assets
For the Year Ended June 30, 2009**

Additions

Contributions	
Employer	\$ 2,745,971
Employee	472,619
Total Contributions	<u>3,218,590</u>

Investment earnings	
Net depreciation in fair value of investments	(3,846,251)
Interest and dividends	1,015,387
Total Investment Earnings	<u>(2,830,864)</u>
Less: investment expense	(158,449)
Net Investment Income	<u>(2,989,313)</u>
Total Additions	<u>229,277</u>

Deductions

Administrative expenses	71,482
Benefits	1,959,884
Total Deductions	<u>2,031,366</u>

Change in net assets	(1,802,089)
Net assets, beginning of year	<u>27,912,766</u>
Net Assets, End of Year	<u>\$ 26,110,677</u>

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

**HARFORD COUNTY, MARYLAND
SHERIFF'S OFFICE PENSION SYSTEM**

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

1. PLAN DESCRIPTION

The Sheriffs Office Pension System (the SOPS or the Plan) is a single employer defined benefit pension plan, established by Harford County, Maryland (the County) effective July 1, 1997, for certain law enforcement and correctional employees of the Office of the Sheriff of Harford County. Bill No. 97-20 assigns the authority to establish and amend the benefit provisions of the Plan to Harford Government by county ordinance. The SOPS provide retirement, disability and death benefits to plan members and their beneficiaries. Effective July 1, 2005, per Bill 05-22, the cost of living increase of the CPI-U is limited to 3% applied each July 1 for all participants in pay status for the requisite 12 months. The SOPS is considered part of the County's financial reporting entity and is included in the County's financial statements as a pension trust fund.

The Internal Revenue Service issued a determination letter on September 20, 2002, which stated that the Plan and its underlying trust qualify under the applicable provision of the Internal Revenue Code, and therefore are exempt from Federal income taxes. In the opinion of the plan administrator, the Plan and its underlying trust have operated within the terms of the Plan and remain qualified under the applicable provisions of the Internal Revenue Code.

The membership data related to the Harford County Sheriff's Office Pension Plan as of July 1, 2008, was as follows:

Plan Participants	
Retirees and beneficiaries currently receiving benefits	56
Terminated plan members entitled to, but not yet receiving benefits	1
Terminated non-vested participants	8
Terminated non-vested participants who had not yet received their employee contributions	3
Active plan members	123
Total	<u>191</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The SOPS fund uses the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recorded when the payments are made.

**HARFORD COUNTY, MARYLAND
SHERIFF'S OFFICE PENSION SYSTEM**

**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 of America 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 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 SOPS.

Interest Rate Risk

The investment policy of the pension plan does 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. However, cash and cash equivalent investments, such as commercial paper, repurchase agreements, etc. are limited to maturities of one year 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, 2009, are as follows:

Rating	Maximum Allocation	Allocation as of June 30, 2009
Investment grade	100%	28%
AAA/Aaa	100%	27%
AA/Aa	50%	5%
A/A	50%	23%
BAA/Baa	20%	17%

**HARFORD COUNTY, MARYLAND
SHERIFF'S OFFICE PENSION SYSTEM**

**Notes to the Financial Statements
June 30, 2009**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Credit Risk

As a means of minimizing risk and providing a consistent return, the investment policy requires 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:

	<u>Minimum</u>	<u>Maximum</u>
Large cap equities	25%	47%
Mid cap equities	3%	13%
Small cap equities	3%	10%
International equities	14%	27%
Fixed income	21%	39%

3. CONTRIBUTIONS AND FUNDING POLICY

Plan members are required to contribute 7% of their annual covered salary. The County is required to contribute at an actuarially determined rate, currently 34.9% of covered payroll. Per Bill 97-20, contribution requirements of the plan members and the County are established and may be amended by County legislature. Administrative costs of the SOPS are to be paid by the trust unless the County decides to do so.

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

Annual required contribution	\$ 2,745,971
Contributions made	<u>2,745,971</u>
Net pension obligation, beginning and end of the year	<u>\$ -</u>

The annual required contribution for the current year was determined as part of the July 1, 2008, actuarial valuation using the projected unit cost method. Under this method, the actuarial liability represents the present value of projected benefits prorated for service to date for current participants. The normal cost represents the present value of projected benefits allocated to the current year for active participants who have not attained normal retirement age. Any actuarial gains and losses resulting from actual plan experiences either more or less favorable than anticipated on the basis of the actuarial assumptions and asset valuation method will result in direct adjustments of the unfunded actuarial accrued liability. These adjustments will be amortized over a rolling 15-year period.

**HARFORD COUNTY, MARYLAND
SHERIFF'S OFFICE PENSION SYSTEM**

**Notes to the Financial Statements
June 30, 2009**

3. CONTRIBUTIONS AND FUNDING POLICY (continued)

Generally, contributions toward the funding of the plan are derived as the sum of the normal cost and a payment toward the amortization of the unfunded actuarial liability. The original unfunded accrued liability will be amortized over the next 13 years: various adjustments are being amortized over 15 to 28 years. Payments toward the unfunded liability increase by 3% per year. The actuarial assumptions included (a) a 7.50% investment rate of return compounded annually and (b) salary increases of 9.50% for each of the first four years of service, 6.50% for the fifth year, 5.50% for each of the next five years, 5.00% for each of the next 15 years and 3.50% annually thereafter. Three years of trend information is as follows:

<u>Fiscal year ending June 30,</u>	<u>Annual pension cost (APC)</u>	<u>% of APC contributed</u>	<u>Net Pension Obligation</u>
2007	\$ 1,410,000	100%	None
2008	2,388,571	100%	None
2009	2,745,971	100%	None

4. REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTAL INFORMATION

**HARFORD COUNTY, MARYLAND
SHERIFF'S OFFICE PENSION SYSTEM**

**Schedule of Funding Progress (unaudited)
June 30, 2009**

	(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)
7/1/1999	\$ 9,961,094	\$ 18,500,652	53.8%	\$ 8,539,558	\$ 11,769,048	72.6%
7/1/2000	13,156,736	21,670,336	60.7%	8,513,600	13,044,377	65.3%
7/1/2001	16,480,389	25,927,241	63.6%	9,446,852	14,344,112	65.9%
7/1/2002	19,084,468	33,135,041	57.6%	14,050,573	15,054,891	93.3%
7/1/2003	22,205,448	40,090,697	55.4%	17,885,249	15,082,253	118.6%
7/1/2004	25,066,065	46,834,894	53.5%	21,768,829	15,921,090	136.7%
7/1/2005	29,066,454	60,388,789 ¹	48.1%	31,322,335	17,077,674	183.4%
7/1/2006	24,009,239	37,394,897 ²	64.2%	13,385,658	4,828,725	277.2%
7/1/2007	26,445,775	40,988,678	64.5%	14,542,903	6,222,088	233.7%
7/1/2008	29,402,030	43,903,198	67.0%	14,501,168	6,863,159	211.3%

1 Represents increase in plan's cost of living adjustment from a maximum 1.5% to a maximum of 3% per year.

2 Adjusted by the accrued transfer of assets to the state LEOPS as of July 1, 2006.

**HARFORD COUNTY, MARYLAND
SHERIFF'S OFFICE PENSION SYSTEM**

**Schedule of Employer Contributions (unaudited)
June 30, 2009**

Year ended June 30,	Annual required contribution	Percentage contributed
2000	\$ 1,313,838	100%
2001	1,531,838	100%
2002	1,472,916	100%
2003	2,118,700	100%
2004	2,126,895	100%
2005	3,372,995	100%
2006	4,789,795	100%
2007	1,410,000	100%
2008	2,388,571	100%
2009	2,019,123	136%

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

Valuation date	July 1, 2008
Actuarial cost method	Projected unit cost method
Amortization method	Increasing 3% per year/closed
Remaining amortization period	Original unfunded liability established July 1, 1997- 13 years remaining Buck to Mercer conversion established July 1, 1998 - 13 years remaining Assumption change as of July 1, 1998 - 13 years remaining Assumption change as of July 1, 1999 - 13 years remaining Plan change established July 1, 2002 - 23 years remaining Assumption change as of July 1, 2004 - 25 years remaining Plan change established July 1, 2005 - 26 years remaining Plan change established July 1, 2006 - 27 years remaining Assumption Change as of July 1, 2007- 28 years remaining Cumulative actuarial (gain)/loss combined July 1, 2007 - 14 years remaining
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%, compounded annually, gross of investment expenses
Project salary increases	9.5% for each of the first four years of service, 6.5% for the fifth year, 5.5% for each of the next five year, 5.00% for each of the next fifteen years, and 3.5% annually thereafter.