

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

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

For the Year Ended June 30, 2013



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2013

CONTENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
Statement of Plan Net Position	3
Statement of Changes in Plan Net Position	4
Notes to the Financial Statements	5
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress	11
Schedule of Employer Contributions	12



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

Report on the Financial Statements

We have audited the accompanying statement of plan net position and statement of changes in plan net assets of Harford County, Maryland, Sheriff's Office Pension System (the Plan), a pension trust fund of Harford County, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Plan's 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.

Auditor's 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. 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 auditor's 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.



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

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 plan net assets of the Harford County, Maryland Sheriff's Office Pension System, as of June 30, 2013, and the changes in its plan net assets for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Other Matters

Accounting principles generally accepted in the United States of America require that the accompanying schedules of funding progress and employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 evidence sufficient to express an opinion or provide any assurance.

Hunt Valley, Maryland
September 27, 2013

SB & Company, LLC

HARFORD COUNTY, MARYLAND SHERIFF'S OFFICE PENSION SYSTEM

**Statement of Plan Net Position
As of June 30, 2013**

ASSETS	
Equity in pooled cash and investments	\$ 439,124
Investments, at fair value:	
Cash equivalents	1,111,169
Fixed income fund	10,458,072
Equities and equivalents	<u>29,295,139</u>
Total investments	<u>40,864,380</u>
Total Assets	<u>\$ 41,303,504</u>
 LIABILITIES	
Accounts payable	<u>24,664</u>
Net Position Held In Trust for Pension Benefits	<u>\$ 41,278,840</u>

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

HARFORD COUNTY, MARYLAND SHERIFF'S OFFICE PENSION SYSTEM

**Statement of Changes in Plan Net Position
For the Year Ended June 30, 2013**

ADDITIONS

Contributions:

Employer	\$ 2,287,714
Employee	450,816
Total Contributions	<u>2,738,530</u>

Investment earnings:

Net increase in fair value of investments	3,848,761
Interest and dividends	777,151
Less: investments expense	171,070
Net investment earnings	<u>4,454,842</u>
Total Additions	<u>7,193,372</u>

DEDUCTIONS

Benefits	2,384,552
Administrative expenses	72,051
Total Deductions	<u>2,456,603</u>

Changes in net position	4,736,769
Net Position, beginning of year	<u>36,542,071</u>
Net Position, End of Year	<u>\$ 41,278,840</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, 2013

1. PLAN DESCRIPTION

The Sheriff's 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 provides retirement, disability and death benefits to plan members and their beneficiaries. 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 the trust is 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, 2012, was as follows:

<u>Plan Participants</u>	
Retirees and beneficiaries currently receiving benefits	65
Terminated vested participants	6
Active plan members	129
Total	<u>200</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 recognized when due and payable in accordance with the terms of the Plan.

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.

HARFORD COUNTY, MARYLAND SHERIFF'S OFFICE PENSION SYSTEM

Notes to the Financial Statements

June 30, 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Method Used to Value Investments

Investments are reported at fair market value. Short-term investments are reported at cost, which approximates fair 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(s) may invest in commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, deposit accounts (with the custodian's bank), which is fully insured and/or fully collateralized, and money market funds to provide income, liquidity for expense payments, and preservation of the fund's principal value. All such assets must represent maturities of one year or less at time of purchase. Standard & Poor's and Moody's must rate commercial paper assets A-2 or P-2, respectively. The fixed income portion of the portfolio will consist primarily of fixed income securities denominated in U.S. dollars issued by the U.S. Government or U.S. corporations rated investment grade or better and having a weighted average maturity of no longer than 10 years. The manager(s) should maintain the fixed income portion of the portfolio at a risk level roughly equivalent to Barclays Government/Credit Intermediate-Term Bond Index.

The portfolio's maximum exposure to non benchmark sectors including foreign issues, emerging market debt and high yield securities may not exceed 20% of its market value.

HARFORD COUNTY, MARYLAND SHERIFF'S OFFICE PENSION SYSTEM

Notes to the Financial Statements June 30, 2013

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>
U.S. Large cap equities	25%	47%
U.S. Mid cap equities	3%	13%
U.S. Small cap equities	3%	10%
International equities	14%	27%
Fixed income	21%	39%

Recent Accounting Pronouncements

In June of 2012 the Governmental Accounting Standards Board (GASB) issued Statement No. 67, Financial Reporting for Pension Plans (GASB 67). The objective of GASB 67 is to improve the financial reporting by state and local governmental pension plans. Management is in the process of determining the effects of this pronouncement, but believes it will have a material effect once implemented.

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 which is based off of expected future liabilities; currently this rate is 34.7% of the prior year's covered payroll as listed in the actuary report dated July 1, 2013. 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) for the year ended June 30, 2013, and Net Pension Obligation (NPO) as of June 30, 2013 and 2012, of Harford County for this SOPS are as follows:

Net pension obligation, beginning of year	\$	-
Annual required contribution		2,287,714
Contributions made		<u>(2,287,714)</u>
Net Pension Obligation, End of Year	\$	<u>-</u>

HARFORD COUNTY, MARYLAND SHERIFF'S OFFICE PENSION SYSTEM

Notes to the Financial Statements
June 30, 2013

3. CONTRIBUTIONS AND FUNDING POLICY (continued)

The annual required contribution for the year ended June 30, 2013 was determined as part of the July 1, 2012, 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.

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 10 years; various adjustments are being amortized over 10 to 29 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:

Fiscal Years Ending	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
2011	\$ 2,140,299	100%	NONE
2012	2,258,322	100%	NONE
2013	2,287,714	100%	NONE

The following is the funded status information for the plan as of July 1, 2012 and two preceding years:

	(1)	(2)	(3)	(4)	(5)	(6)
As of July 1,	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)
2010	\$32,478,788	\$47,756,509	68.0%	\$15,277,721	\$ 6,728,974	227.0%
2011	34,629,058	50,273,394	68.9%	15,644,336	6,942,604	225.3%
2012	36,602,822	55,693,186	65.7%	19,090,364	6,595,866	289.4%

HARFORD COUNTY, MARYLAND SHERIFF'S OFFICE PENSION SYSTEM

Notes to the Financial Statements

June 30, 2013

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 SUPPLEMENTARY INFORMATION

HARFORD COUNTY, MARYLAND SHERIFF'S OFFICE PENSION SYSTEM

Schedule of Funding Progress (unaudited) June 30, 2013

	(1)	(2)	(3)	(4)	(5)	(6)
As of July 1,	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)
2003	\$ 22,205,448	\$ 40,090,697	55.4%	\$ 17,885,249	\$ 15,082,253	118.6%
2004	25,066,065	46,834,894	53.5%	21,768,829	15,921,090	136.7%
2005	29,066,454	60,388,789 ¹	48.1%	31,322,335	17,077,674	183.4%
2006	24,009,239	37,394,897 ²	64.2%	13,385,658	4,828,725	277.2%
2007	26,445,775	40,988,678	64.5%	14,542,903	6,222,088	233.7%
2008	29,402,030	43,903,198	67.0%	14,501,168	6,863,159	211.3%
2009	31,366,930	45,900,102	68.3%	14,533,172	6,636,738	219.0%
2010	32,478,788	47,756,509	68.0%	15,277,721	6,728,974	227.0%
2011	34,629,058	50,273,394	68.9%	15,644,336	6,942,604	225.3%
2012	36,602,822	55,693,186	65.7%	19,090,364	6,595,866	289.4%

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, 2013**

Years Ended June 30,	Annual Required Contribution	Percentage Contributed
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	2,745,971	100%
2010	2,019,123	100%
2011	2,140,299	100%
2012	2,258,322	100%
2013	2,287,714	100%

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, 2012
Actuarial cost method	Projected Unit Credit Method
Amortization method	Level Percentage of Payroll
Remaining amortization period	Original Unfunded Liability established 7/1/97—9 years remaining Buck to Mercer Conversion established 7/1/98—9 years remaining Assumption Change as of 7/1/98—9 years remaining Assumption Change as of 7/1/99—9 years remaining Plan Change established 7/1/02—19 years remaining Assumption Change as of 7/1/04—21 years remaining Plan Change established 7/1/05—22 years remaining Plan Change established 7/1/06—23 years remaining Assumption Change as of 7/1/07—24 years remaining Assumption Change as of 7/1/10—27 years remaining Plan Change as of 7/1/11—28 years remaining Assumption Change as of 7/1/11—28 years remaining Assumption Changes as of 7/1/12-29 years remaining Cumulative actuarial (gain)/loss combined 7/1/12—15 years remaining
Asset valuation method	5-year Smoothed Market

HARFORD COUNTY, MARYLAND SHERIFF'S OFFICE PENSION SYSTEM

Schedule of Employer Contributions (unaudited)

June 30, 2013

Actuarial assumptions:

Investment rate of return	7.5%, compounded annually, gross of investment expenses
Projected 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 years, 5.0% for each of the next fifteen years, and 3.5% annually thereafter
Post Retirement Cost-of-Living Adjustments	3% compounded annually

