

**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, 2014



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

JUNE 30, 2014

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 Changes in the County's Net Pension Liability and Related Ratios	11
Schedule of County Contributions	12
Schedule of Investment Returns	13



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors
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 positives of Harford County, Maryland Sheriff's Office Pension System (the Plan), a pension trust fund of Harford County, Maryland, as of June 30, 2014, and the related notes to the financial statement, 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 of these financial statements based on our audit. We conducted our audit in accordance with auditing standards general 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of the Harford County, Maryland Sheriff's Office Pension System as of June 30, 2014, and the changes in its plan net position 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 schedule of changes in the county's net pension liability and related ratios, schedule of county contributions, and schedule of investment returns 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 a 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 26, 2014

SB & Company, LLC

HARFORD COUNTY, MARYLAND, SHERIFF'S OFFICE PENSION SYSTEM

**Statement of Plan Net Position
As of June 30, 2014**

ASSETS	
Equity in pooled cash and investments	\$ 463,640
Investments, at fair value:	
Cash equivalents	645,293
Fixed income fund	11,370,640
Equities and equivalents	36,103,612
Total investments	48,119,545
Total Assets	48,583,185
LIABILITIES	
Accounts payable	16,513
Net Position Restricted for Pensions	\$ 48,566,672

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, 2014

ADDITIONS

Contributions:

Employer	\$ 2,376,590
Employee	451,766
Total Contributions	<u>2,828,356</u>

Investment earnings:

Net increase in fair value of investments	6,499,869
Interest and dividends	758,200
Less: investments expense	169,105
Net investment earnings	<u>7,088,964</u>
Total Additions	<u>9,917,320</u>

DEDUCTIONS

Administrative expenses	53,240
Benefits	2,576,248
Total Deductions	<u>2,629,488</u>

Changes in net position restricted for pensions	7,287,832
Net Position, beginning of year	<u>41,278,840</u>
Net Position, End of Year	<u>\$ 48,566,672</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, 2014

1. PLAN DESCRIPTION

Plan Administration

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 provide 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.

Management of the SOP is vested with the Trustees of the Plan. The County Plan has five trustees who shall be the County Treasurer or Acting Treasurer, The County Attorney or Acting County Attorney, the Director or Acting Director of Human Resources and two representatives who are each selected by the covered individuals of certified law enforcement employees and certified correctional service employees.

Plan Membership

The membership data related to the Harford County Sheriff's Office Pension Plan as of July 1, 2013, was as follows:

Plan Participants	
Retirees and beneficiaries currently receiving benefits	73
Terminated vested participants	7
Active plan members	123
Total	203

HARFORD COUNTY, MARYLAND, SHERIFF'S OFFICE PENSION SYSTEM

Notes to the Financial Statements June 30, 2014

1. PLAN DESCRIPTION (continued)

Benefits Provided

The SOP provides retirement, disability and death benefits to plan members and their beneficiaries. Effective May 20, 2013, per Bill 13-9, the cost of living adjustment shall not exceed 3 percent for a participant's benefit attributable to years of creditable service earned before July 1, 2013. Effective beginning with the cost of living adjustment (COLA) for July 1, 2014, with respect to the portion of a participant's benefit attributable to years of creditable service earned on or after July 1, 2013, the COLA shall not exceed 2.5 percent, if the actual rate of return of the plan's assets is less than 7 percent the COLA shall not exceed 1 percent applied each July 1 for all participants in pay status for the requisite 12 months.

Contributions

Plan members are required to contribute 7% of their annual covered salary. The County is required to contribute at an actuarially determined rate, currently 35.0% 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.

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.

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.

HARFORD COUNTY, MARYLAND, SHERIFF'S OFFICE PENSION SYSTEM

Notes to the Financial Statements

June 30, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of New Accounting Principles

The County has adopted the provision of Government Accounting Standards Board (GASB) statement No. 65, entitled "Items Previously Reported as Assets and Liabilities" and GASB Statement No. 67 entitled "Financial Reporting for Pension Plans".

3. INVESTMENTS

Investment Policy

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. 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:

	Target Allocation
U.S. Large cap equities	36%
U.S. Mid cap equities	8%
U.S. Small cap equities	5%
International equities	21%
Fixed income	30%
Total	100%

Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 17.11 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

HARFORD COUNTY, MARYLAND, SHERIFF'S OFFICE PENSION SYSTEM

Notes to the Financial Statements June 30, 2014

4. NET PENSION LIABILITY OF THE COUNTY

Net Pension Liability of the County

The components of the net pension liability of the County at June 30, 2014, were as follows:

Total pension liability	\$ 61,067,351
Plan fiduciary net position	<u>(48,566,672)</u>
County's net pension liability	<u>\$ 12,500,679</u>
Plan fiduciary net pension as a percentage of the total pension liability	79.53%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of July 1, 2013 rolled forward to June 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Rates vary by participant service
Investment rate of return	7.0 percent, net of pension plan investment expenses. includes inflation

Mortality rates were based on the RP-2000 Combined Healthy tables with generational projection using the scale AA.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation (3%). The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	9.0%
International equity	8.4%
Fixed income	4.6%

HARFORD COUNTY, MARYLAND, SHERIFF'S OFFICE PENSION SYSTEM

Notes to the Financial Statements

June 30, 2014

4. NET PENSION LIABILITY OF THE COUNTY (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed the plan member contributions will be made at the current contribution rate and that the County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the County, calculated using the discount rate of 7.0 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.0 percent) or 1 percentage point higher (8.0 percent) than the current rate:

	1% Decrease	Current	1% Increase	
	6.00%	Discount Rate	7.00%	8.00%
County's net pension liability	<u>\$ 20,930,952</u>	<u>\$ 12,500,679</u>	<u>\$ 5,603,191</u>	

REQUIRED SUPPLEMENTARY INFORMATION

HARFORD COUNTY, MARYLAND, SHERIFF'S OFFICE PENSION SYSTEM

Schedule of Changes in the County's Net Position Liability and Related Ratios June 30, 2014

	<u>2014</u>
Total Pension Liability	
Service cost	\$ 1,412,000
Interest	3,982,000
Charges of benefit terms	70,000
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(2,576,000)
Net Change in Total Pension Liability	2,888,000
Total pension liability, beginning	58,180,000
Total Pension Liability, Ending (a)	\$ 61,068,000
Plan Fiduciary Net Position	
Contributions - employer	\$ 2,377,000
Contributions - member	452,000
Net investment income	7,089,000
Benefit payments, including refunds of member contributions	(2,576,000)
Administrative expenses	(54,000)
Net Change in Plan Fiduciary Net Position	7,288,000
Plan fiduciary net position, beginning	41,279,000
Plan Fiduciary Net Position, Ending (b)	\$ 48,567,000
County's Net Pension Liability - Ending (a) - (b)	\$ 12,501,000
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.53%
Covered-employee Payroll	\$ 8,569,000
County's Net Position Liability as a Percentage of Covered- Employee Payroll	145.89%
Expected average remaining service years of all participants	6

Notes to Schedule:

Information for FY 2013 and earlier is not available.

Benefit Changes: There were significant changes reflected in FY 2014 including increased benefits accrual rates for future service, Early Retirement benefits, Average Compensation period, limitation to annual COLA for benefits based on service earned after June 30, 2013, and line of duty disability benefits.

Change of assumptions: Relevant assumptions were updated to reflect the new pronouncement effective July 1, 2013. The assumptions include the assumed future COLA, turnover rates, retirement rates, and the disability type.

HARFORD COUNTY, MARYLAND, SHERIFF'S OFFICE PENSION SYSTEM

Schedule of County Contributions June 30, 2014

	<u>2014</u>
Actuarially determined contribution	\$ 2,377,000
Contributions in relation of the actuarially determined contribution	<u>2,377,000</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
Covered-employee Payroll	\$ 8,569,280
Contributions as a Percentage of Covered-employee Payroll	27.74%

Notes to Schedule:

Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the year immediately following the fiscal year. Actuarial valuations are performed every year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected unit credit
Amortization method	Level Percentage of Payroll
Remaining amortization period	15 years for gains and losses (open), 30 years for prior period and assumption changes, 15 years for July 1, 2013 plan changes
Asset value method	5-year smoothed market
Inflation	3.0 percent
Salary increases	Rates vary by participant age and service
Investment rate of return	7.0%, net of pension plan investment expense, including inflation
Retirement age	Rates vary by participant age and service
Mortality	RP-2000 Combined Healthy tables with generational projection by Scale AA

Information for FY2013 and earlier is not available.

HARFORD COUNTY, MARYLAND, SHERIFF'S OFFICE PENSION SYSTEM

Schedule of Investment Returns

June 30, 2014

	<u>2014</u>
Annual money-weighted rate of return, net of investment expenses	17.11%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.