

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

**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

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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, Volunteer Firefighter Length of Service Award Program (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.



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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, Volunteer Firefighter Length of Service Award Program, 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
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARD PROGRAM**

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

ASSETS	
Equity in pooled cash	\$ 234,037
Investments, at fair value:	
Cash equivalents	513,328
Fixed income fund	7,797,569
Equities and equivalents	<u>11,283,510</u>
Total investments	<u>19,594,407</u>
Total Assets	<u>\$ 19,828,444</u>
 LIABILITIES	
Accounts payable	<u>13,395</u>
Net Position Held in Trust for Pension Benefits	<u>\$ 19,815,049</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 Position
For the Year Ended June 30, 2013**

ADDITIONS

Contributions:

Plan sponsor \$ 1,970,503

Investment earnings:

Net appreciation in fair value of investments 1,423,686

Interest and dividends 425,361

Less: investment expenses 98,592

Net investment earnings 1,750,455

Total Additions 3,720,958

DEDUCTIONS

Benefit payments 1,433,814

Administrative expenses 9,834

Total Deductions 1,443,648

Changes in net position 2,277,310

Net position, beginning of year 17,537,739

Net Position, End of Year \$ 19,815,049

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

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

**Notes to the Financial Statements
June 30, 2013**

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.

The Length of Service Award Program (LOSAP) is different from traditional qualified retirement plans. These plans are regulated under the Internal Revenue Code section 457(e)(11). The County's plan meets the requirements of this section, which means the payments on behalf of the fire fighters are not treated as current "wages"; and the County is an "eligible employer," as defined by the IRS, therefore the Plan is tax exempt.

Based on County statutes, the firemen and ambulance personnel are eligible to participate upon reaching age of 55 and 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 \$5,000 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 \$6 per month for each year in excess of 25 years. 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 September 30, 2012, was as follows:

Plan Participants	
Retirees and beneficiaries currently receiving benefits	389
Terminated plan members entitled to, but not yet receiving benefits	274
Active plan members	1,123
Total	1,786

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 due and payable in accordance with the terms of the Plan.

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

**Notes to the Financial Statements
June 30, 2013**

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 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 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. Cash and cash equivalent investments, such as commercial paper, repurchase agreements, etc., are limited to maturities of one year.

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 investment 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 and 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 investment manager 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 10% of its market value.

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

**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>Firemen's Pension</u>	
	<u>Minimum</u>	<u>Maximum</u>
U.S. Large cap equities	20%	36%
U.S. Mid cap equities	5%	9%
U.S. Small cap equities	1%	5%
International equities	12%	22%
Fixed income	31%	59%

Recent Accounting Pronouncements

In June of 2012 the Governmental Accounting Standards Board (GASB) issued Statement No. 67, *Financial Reporting for Pension Plans* (GASB67). 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

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) for the year ended June 30, 2013, and Net Pension Obligation (NPO) as of June 30, 2013, to Harford County for this LOSAP are as follows:

Net pension obligation, beginning of year	\$ -
Annual required contribution	1,970,503
Contributions made	<u>(1,970,503)</u>
Net Pension Obligation, End of Year	<u>\$ -</u>

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

**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 September 30, 2012, actuarial valuation using the entry age normal funding method, with a 15-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, net of expenses, 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, 2012, plus adjustments to September 30, 2012. Three years of trend information is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
2011	1,670,207	100%	NONE
2012	2,026,627	100%	NONE
2013	1,970,503	100%	NONE

The following is the funded status information for the plan as of September 30, 2012, and two preceding years:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date, September 30,	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	\$15,106,341	\$26,762,302	56.4%	\$11,655,961	N/A	N/A
2011	18,430,763	28,509,932	64.6%	10,079,169	N/A	N/A
2012	19,403,069	29,236,000	66.4%	9,832,931	N/A	N/A

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

**Notes to the Financial Statements
June 30, 2013**

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.

REQUIRED SUPPLEMENTARY INFORMATION

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

**Schedule of Funding Progress (unaudited)
June 30, 2013**

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date, September 30,	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	\$ 8,446,607	\$15,393,166	54.9%	\$6,946,559	N/A	N/A
2004	9,810,134	17,532,517 ¹	56.0%	7,722,383	N/A	N/A
2005	10,692,198	20,867,164	51.2%	10,174,966	N/A	N/A
2006	11,620,886	21,928,036	53.0%	10,307,150	N/A	N/A
2007	13,307,771	24,290,687	54.8%	10,982,916	N/A	N/A
2008	14,114,730	24,678,279	57.2%	10,563,549	N/A	N/A
2009	13,504,346	26,534,379	50.9%	13,030,033	N/A	N/A
2010	15,106,341	26,762,302	56.4%	11,655,961	N/A	N/A
2011	18,430,763	28,509,932	64.6%	10,079,169	N/A	N/A
2012	19,403,069	29,236,000	66.4%	9,832,931	N/A	N/A

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

1 - After the change in mortality assumptions.

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

**Schedule of Employer Contributions (unaudited)
June 30, 2013**

Years Ended June 30,	Annual Required Contribution	Percentage Contributed
2004	\$ 985,500	100%
2005	1,354,883	100%
2006	946,098	100%
2007	1,046,218	100%
2008	1,387,771	100%
2009	2,387,771	100%
2010	1,700,477	100%
2011	1,670,207	100%
2012	2,026,627	100%
2013	1,970,503	100%

The information presented in the required supplementary 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, 2012
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 to 15 years (closed period)
	Market value as of June 30, 2012, plus estimated transactions to September 30, 2012, plus accrued contributions
Actuarial assumptions:	
Investment rate of return	6% compounded annually

