

**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, 2015**



**SB & COMPANY, LLC**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

**JUNE 30, 2015**

**CONTENTS**

<b>REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS</b>	1
<b>FINANCIAL STATEMENTS</b>	
Statement of Plan Net Position	3
Statement of Changes in Plan Net Position	4
Notes to the Financial Statements	5
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
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**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

## **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 position 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, 2015, 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 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**  
KNOWLEDGE • 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 Volunteer Firefighter Length of Service Award Program, as of June 30, 2015, 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 schedules 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 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  
October 19, 2015

A handwritten signature in cursive script that reads "SB &amp; Company, LLC".

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

**Statement of Plan Net Position  
As of June 30, 2015**

<b>ASSETS</b>	
Equity in pooled cash	\$ 372,702
Investments, at fair value:	
Cash equivalents	533,154
Fixed income fund	8,500,296
Equities and equivalents	<u>14,909,319</u>
Total investments	<u>23,942,769</u>
<b>Total Assets</b>	<u><u>24,315,471</u></u>
 <b>LIABILITIES</b>	
Accounts payable	<u>10,467</u>
<b>Net Position Held In Trust for Pension Benefits</b>	<u><u>\$ 24,305,004</u></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, 2015**

**ADDITIONS**

Contributions:

Plan Sponsor	\$ 2,030,844
Total Contributions	<u>2,030,844</u>

Investment earnings:

Net appreciation in fair value of investments	498,837
Interest and dividends	443,011
Less: investment expenses	<u>101,735</u>
Net investment earnings	<u>840,113</u>
<b>Total Additions</b>	<u><u>2,870,957</u></u>

**DEDUCTIONS**

Benefit payments	1,594,505
Administrative expenses	<u>13,710</u>
<b>Total Deductions</b>	<u><u>1,608,215</u></u>

Change in net position	1,262,742
Net position, beginning of year	<u>23,042,262</u>
<b>Net Position, End of Year</b>	<u><u>\$ 24,305,004</u></u>

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, 2015**

**1. PLAN DESCRIPTION**

**Plan Administration**

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.

The County Fire Chief's Association shall be responsible for administering the Volunteer Firefighter's Length of Service Award Program. The voting membership of the Fire Chief's Association is composed of the Volunteer Fire and Emergency Medical Services companies having first due responsibilities in Harford County, Maryland.

**Plan Membership**

The membership data related to the Volunteer Firefighter LOSAP Plan as of September 30, 2014, was as follows:

<b>Plan Participants</b>	
Retirees and beneficiaries currently receiving benefits	<b>429</b>
Terminated plan members entitled to but not yet receiving benefits	<b>294</b>
Active plan members	<b>1,170</b>
<b>Total</b>	<b>1,893</b>

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

**Notes to the Financial Statements  
June 30, 2015**

**1. PLAN DESCRIPTION (continued)**

**Benefits Provided**

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 \$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.

**Contributions**

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.

The annual required contribution for the year ended June 30, 2015, 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 compounded annually. The firemen are voluntary and, therefore, would not have a projected salary increase.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The LOSAP plan used 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.

**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  
VOLUNTEER FIREFIGHTER LENGTH OF SERVICE AWARD PROGRAM**

**Notes to the Financial Statements  
June 30, 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Method Used to Value Investment**

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 Volunteer Fireman's LOSAP Plan.

**3. INVESTMENTS**

**Investment Policy**

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 one year. 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:

<b>Asset Class</b>	<b>Target Allocation</b>
Domestic equity	38%
International equities	17%
Fixed income	45%
<b>Total</b>	<b>100%</b>

**Rate of Return**

For the year ended June 30, 2015, the annual money-weighted rate of return pension plan investments, net of pension plan investment expense, was 4.18 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

**Notes to the Financial Statements  
June 30, 2015**

**4. NET PENSION LIABILITY OF THE COUNTY**

The components of the net pension liability of the County as of June 30, 2015, were as follows:

Total pension liability	\$ 31,727,810
Plan fiduciary net position	<u>(24,305,004)</u>
County's net pension liability	<u>\$ 7,422,806</u>

Plan fiduciary net position as a percentage of the total pension liability	<b>76.60%</b>
--	---------------

**Actuarial Assumptions**

The total pension liability in the September 30, 2014 actuarial valuation rolled forward to June 30, 2015 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Not Applicable
Investment rate of return	6.0 percent, net of pension plan investment expenses, includes inflation

Mortality rates were based on the RP-2000 Combined Healthy Blue Collar set forward one year and with generational projection by Scale AA.

The above summary is a summary of key actuarial assumptions. Full Descriptions of the actuarial assumptions are available in the September 30, 2014 actuarial valuation report.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate 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 asset 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:

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

**Notes to the Financial Statements  
June 30, 2015**

**4. NET PENSION LIABILITY OF THE COUNTY (continued)**

**Actuarial Assumptions (continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	38.0%	9.7%
International equity	17.0%	10.1%
Fixed income	45.0%	4.6%

**Discount Rate**

The discount rate used to measure the total pension liability was 6.0 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 6.0 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 (5.0 percent) or 1 percentage point higher (7.0 percent) than the current rate:

	<b>1% Decrease</b>	<b>Discount Rate</b>	<b>1% Increase</b>
	<b>5.00%</b>	<b>6.00%</b>	<b>7.00%</b>
County's net pension liability	<u>\$ 11,760,853</u>	<u>\$ 7,422,806</u>	<u>\$ 3,892,620</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**Schedule of Changes in the County's Net Pension Liability and Related Ratios  
June 30, 2015**

	<u>2015*</u>	<u>2014*</u>
<b>Total Pension Liability</b>		
Service cost	\$ 678,000	\$ 645,000
Interest	1,806,000	1,755,000
Differences between expected and actual experience	(57,000)	-
Benefit payments, including refunds of member contributions	<u>(1,595,000)</u>	<u>(1,511,000)</u>
<b>Net Change in Total Pension Liability</b>	<b>832,000</b>	889,000
Total pension liability, beginning	<u>30,895,000</u>	30,006,000
<b>Total Pension Liability, Ending (a)</b>	<b><u>\$ 31,727,000</u></b>	<u>30,895,000</u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ 2,031,000	1,935,000
Net investment income	840,000	2,818,000
Benefit payments, including refunds of member contributions	(1,595,000)	(1,511,000)
Administrative expenses	<u>(14,000)</u>	<u>(15,000)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	<b>1,262,000</b>	3,227,000
Plan fiduciary net position, beginning	<u>23,042,000</u>	19,815,000
<b>Plan Fiduciary Net Position, Ending (b)</b>	<b><u>\$ 24,304,000</u></b>	<u>\$ 23,042,000</u>
<b>County's Net Pension Liability - Ending (a) - (b)</b>	<b><u>\$ 7,423,000</u></b>	<u>\$ 7,853,000</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<b>76.60%</b>	74.58%
Covered-employee Payroll	N/A	N/A
County's Net Position Liability as a Percentage of covered employees payroll	N/A	N/A
Expected average remaining service years of all participants	<b>7</b>	7

Information for Fiscal Year 2013 and earlier is not available.

\*Numbers are rounded to the nearest 1,000

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

**Schedule of County Contributions  
June 30, 2015**

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,981,000	\$ 1,934,886
Contributions in relation to the actuarially determined contribution	<u>2,030,844</u>	<u>1,934,886</u>
<b>Contribution Deficiency (Excess)</b>	<u>\$ (49,844)</u>	<u>\$ -</u>
Covered-employee Payroll	N/A	N/A
Contributions as a Percentage of Covered-employee Payroll	N/A	N/A

Valuation Date: Actuarially determined contribution rates are calculated as of September 30 for the second fiscal year immediately following the current fiscal year. Actuarial valuations are performed every year.

**Notes to the Schedule**

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal
Amortization method	Level payment over closed periods
Remaining amortization period	15 years
Asset value method	Market Value as of June 30, projected to September 30
Inflation	3.0 percent
Salary increases	N/A
Investment rate of return	6.0 percent, net of pension plan investment expense, including inflation
Retirement age	Upon first eligibilty for benefits
Mortality	RP-2000 Combined Healthy Blue Collar tables, set forward 1 year with Generational projection by Scale AA

Information for FY2013 and earlier is not available.

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

**Schedule of Investment Returns  
June 30, 2015**

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expenses	4.18%	13.97%

\*Information for Fiscal year 2013 and earlier is not available.