



THE CECIL COUNTY PENSION PLAN FOR PUBLIC SAFETY EMPLOYEES

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**A FIDUCIARY FUND OF
CECIL COUNTY, MARYLAND**



Prepared by the Cecil County Department of Finance



THE CECIL COUNTY PENSION PLAN FOR PUBLIC SAFETY EMPLOYEES

ANNUAL FINANCIAL REPORT OF A PENSION FUND OF CECIL COUNTY, MARYLAND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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**CECIL COUNTY PUBLIC SAFETY
PENSION PLAN
BOARD OF TRUSTEES
200 Chesapeake Blvd.
Elkton, MD 21921
(410) - 996-5200**



October 31, 2016

To the County Executive, County Council and
The Citizens of Cecil County, Maryland

Pursuant to Maryland state law that requires essentially all local governments' pension plans to prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants, we hereby issue the Annual Financial Report of The Cecil County Pension Plan for Public Safety Employees (the Plan) for the fiscal year ended June 30, 2016. The Plan is a pension plan of Cecil County. This report is divided into two sections: an Introductory Section including the administrative organization and the letter of transmittal; and a Financial Section including the report of the independent public accountants, management's discussion and analysis, the basic financial statements of the Plan, and certain required supplementary information.

This report consists of management's representations concerning the finances of the Plan. Consequently, the Trustees of the Plan assume responsibility for the completeness and fairness of the presentation, including all disclosures. To provide a reasonable basis for making these representations, the Trustees of the Plan have established a comprehensive internal control framework that is designed to protect the Plan's assets from loss, theft, or misuse and to compile sufficient information for the preparation of the Plan's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Plan's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Plan's financial statements have been audited by SB & Company, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Plan as of and for the fiscal year ended June 30, 2016 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the

accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that Cecil County's financial statements for the fiscal year ended June 30, 2016 are fairly presented in conformity with GAAP. The independent public accountants report is presented as the first component of the Financial Section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Plan's MD&A can be found immediately following the report of independent public accountants.

Profile of the Plan

The Cecil County Pension Plan for Public Safety Employees was established effective July 1, 2002 under a plan document and trust agreement enacted by the Board of County Commissioners of Cecil County to provide retirement benefits to certain law enforcement and emergency services personnel. Responsibility for the administration and operation of the Plan is vested in a 9-member Board of Trustees appointed by the County Executive and subject to confirmation by the County Council.

The Plan serves members and beneficiaries totaling 440 as of June 30, 2016 (page 9). The Plan is a single-employer defined benefit plan that covers all full-time employees on the County's Public Safety Pay Plan hired after June 30, 2002, employees who have opted to convert from the Maryland State Retirement and Pension System (MSRPS) to the Plan, and the Cecil County Sheriff. Thus, the Plan covers a majority of the law enforcement officers, correctional officers and professionals of emergency services, of Cecil County, Maryland.

Major Initiatives

Current Year. During fiscal year 2016, the Trustees, upon recommendation from the Investment Manager and the Investment Consultant, decided to replace Columbus Circle Investors Small Cap Fund with Prudential Jennison Small Company Fund. Also, a new disability review vendor was chosen in fiscal year 2016. The first disability request was in May 2016, and went very smoothly.

Long Term. The Board of Trustees will provide additional educational opportunities to Board members as an increased level of turnover has occurred in the Board. The Board of Trustees will continue to work to ensure that the Plan assets are invested with the long-term objective of earning amounts sufficient to cover expected benefit obligations, while assuming a prudent level of risk.

Additions and Deductions from Plan Net Position

Additions to the net position of \$1,909,104 were comprised of contributions from the County and plan participants of \$3,213,494, net investment earnings of \$576,486 and loss on market value of \$1,880,876 for fiscal year 2016. Deductions to the net position of \$1,944,287 include \$1,672,212 in direct pension payments to participants, \$205,504 return of contributions and interest to terminated participants and \$66,571 in administrative expenses, resulting in a decrease in net position of \$35,183 for fiscal year 2016.

The Plan was created to provide retirement annuities, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the Plan, refunds of contributions to terminated employees, and the cost of administering the Plan. The total deductions from Plan net position related to the above programs amounted to \$1,944,287 in fiscal year 2016.

Additional information regarding additions and deductions is contained in management's discussion and analysis which begins on page 3.

Investments

Through its plan document, trust documents, policies, and procedures, the Plan has established standards to assure that fiduciaries shall discharge their duties solely in the interest of the Plan participants and beneficiaries and with the degree of diligence, care, and skill which prudent men and women would ordinarily exercise under similar circumstance in a like position. (The general concept is often known as the "prudent person rule.") These standards permit the diversification of investments by the Plan to enable the Plan to reduce overall risk and increase returns.

The Board of Trustees has established an investment policy that allows for the delegation of investment authority to professional investment advisors. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk deemed appropriate for the fund. Investment advisors are to execute the investment policy in accordance with the Plan and Trust documents, as well as, Board policy and established guidelines, but can use full discretion within the policy and guidelines. For fiscal year 2016, the return on investments, net of fees, was a negative 2.93%.

Funding

A pension plan is well funded when its assets are equal to or greater than the actuarial accrued liability. The Plan's funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability, and the greater the level of investment potential.

Professional Services

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the Plan. An opinion from the certified public accountant is included in this report. The consultants appointed by the Board of Trustees are listed on page v.

Acknowledgements

The operation of the Plan was made possible by the efforts of the County Executive, County Council and other elected officials and department heads, the Trustees of the Plan, the Human Resources staff, members of the Department of Finance, and the cooperation of the members of the Plan. Preparation of the Annual Financial Report on a timely basis was made possible by the dedicated service of the Department of Finance staff.

In closing, the Trustees look forward to serving the members of The Cecil County Pension Plan for Public Safety Employees by providing benefits in their retirement.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Winston L. Robinson". The signature is fluid and cursive, with a prominent initial "W" and "L".

Winston L. Robinson
Trustee

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES**

Principal Officials & Consultants

June 30, 2016

Appointed Officials

Board of Trustees

Trustee and Chairman	Craig W. Whiteford
Trustee	James M. Alfree
Trustee	Richard K. Brooks, III
Trustee	Bruce Diehl
Trustee	Winston L. Robinson
Trustee	Raymond M. Heidel, CFP
Trustee	Donna M. Nichols
Trustee	Stephen D. Brownhill
Trustee	Angela T. Blodgett

Consultants

Legal Counsel	McGuireWoods, LLP Zauner & Mtimet, P.A.
Independent Public Accountant	SB & Company, LLC
Administrator	Prudential
Actuary	Bolton Partners, Inc.
Disability Review	Animedix MCMC, LLC

FINANCIAL SECTION



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the County Executive and County Council and
The Citizens of Cecil County, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Cecil County Pension Plan for Public Safety Employees (the Plan), a fiduciary fund of Cecil County, Maryland, as of and for the year ended June 30, 2016, 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. 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 respective financial position of the Plan, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 the 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 sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's basic financial statements. The accompanying introductory section and other supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Hunt Valley, Maryland
October 31, 2016

THE CECIL COUNTY PENSION PLAN FOR PUBLIC SAFETY EMPLOYEES

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2016

The Trustees of the Cecil County Pension Plan for Public Safety Employees are pleased to present to readers of the financial statements of the Plan this narrative overview and analysis of the financial activities of the Plan for the fiscal year ended June 30, 2016.

Financial Highlights

The assets of the Plan exceeded its liabilities at the close of the fiscal year by \$43,916,896 (net position). The Plan's net investment income decreased from a positive \$1,316,788 in 2015 to a negative \$1,304,390 in 2016 mainly due to unrealized losses in the equity market. Pension benefits to retired participants increased from \$1,520,291 in 2015 to \$1,672,212 in 2016. Return of contributions and interest to terminating participants decreased from \$288,693 in 2015 to \$205,504 in 2016. As of June 30, 2016, the Plan had 253 active members, 80 retired participants, 4 disabled participants, 25 terminated vested members not yet receiving benefits and 3 non-active members.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of three components: 1) Statement of Plan Net Position, 2) Statement of Change in Plan Net Position, and 3) Notes to the Financial Statements.

The Statement of Plan Net Position (page 6) presents information on all of the Plan's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating.

The Statement of Change in Plan Net Position (page 7) presents information showing how the Plan's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The Plan is reported as a fiduciary fund of the Cecil County, Maryland, government.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 8 of this report.

Required Supplementary Information. The Required Supplementary Information and related notes provide additional information that is essential to a full understanding of the funding progress of the pension plan. The information can be found beginning on page 15 of this report.

Additional information. Other supplementary information is shown on page 18.

**The Cecil County Pension Plan for Public Safety Employees
Management's Discussion and Analysis, June 30, 2016**

Financial Analysis of the Plan

Net Position. The following is a year-to-year comparison of the net position of the Plan.

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percentage</u>
<u>Assets</u>				
Cash and Cash Equivalents	\$ 423,211	\$ 416,290	\$ 6,921	1.7%
Investments, at Fair Value	<u>43,502,742</u>	<u>43,537,219</u>	<u>(34,477)</u>	-0.1%
Total Assets	43,925,953	43,953,509	(27,556)	-0.1%
<u>Liabilities</u>				
Total Liabilities	<u>9,057</u>	<u>1,430</u>	<u>7,627</u>	533.4%
<u>Net Position</u>				
Held in Trust for Pension Benefits	\$ <u>43,916,896</u>	\$ <u>43,952,079</u>	\$ <u>(35,183)</u>	-0.1%

Net Plan position decreased by 0.1% to \$43,916,896. The decrease in net position of \$35,183 was made up of the following components: contributions from employer and active participants of \$3,213,494, net investment loss of \$1,304,390, benefit and return of contribution payments of \$1,877,716 and administrative expenses of \$66,571.

Changes in Net Position. A year-to-year comparison of changes of plan net position is as follows:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percentage</u>
<u>Additions</u>				
Contributions	\$ 3,213,494	\$ 3,109,179	\$ 104,315	3.4%
Net Investment Income (Loss)	<u>(1,304,390)</u>	<u>1,316,788</u>	<u>(2,621,178)</u>	-199.1%
Total Additions	1,909,104	4,425,967	(2,516,863)	-56.9%
<u>Deductions</u>				
Annuity Benefits	1,672,212	1,520,291	151,921	10.0%
Contribution Refunds	205,504	288,693	(83,189)	-28.8%
Administrative Expenses	<u>66,571</u>	<u>46,562</u>	<u>20,009</u>	43.0%
Total Subtractions	<u>1,944,287</u>	<u>1,855,546</u>	<u>88,741</u>	4.8%
Changes in Net Position	<u>\$ (35,183)</u>	<u>\$ 2,570,421</u>	<u>\$ (2,605,604)</u>	-101.4%

The Plan experienced a decrease of \$35,183 in net position in fiscal year 2016. Total contributions increased \$104,315 or 3.4% over 2015. Net investment income decreased year over year by \$2,621,178 as fiscal year 2016 experienced a volatile stock market. In addition, annuity benefits

The Cecil County Pension Plan for Public Safety Employees Management's Discussion and Analysis, June 30, 2016

increased by \$151,921 or 10.0% mainly due to an increase in the number of retired participants. The Plan experienced a \$20,009 or 43.0% increase in administrative expenses mainly due to an increase in legal fees of \$10,171 and an increase in actuarial reporting of \$7,216. As of June 30, 2016, the Plan had 80 retired participants and 4 disabled participants receiving benefits, which included 6 new retirees during fiscal year 2016. In addition, there were 25 vested terminations not yet eligible to receive benefits as of June 30, 2016. Contribution refunds of \$205,504 were paid to 15 terminated participants in 2016 versus \$288,693 to 26 terminated participants in 2015.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances to participants in the Plan, the citizens of Cecil County, and other users of such data. Requests for additional copies of this report, an actuarial report, a list of investments, questions concerning any of the information in this report, and requests for additional financial information should be addressed to Donna Nichols, Trustee, The Cecil County Pension Plan for Public Safety Employees, 200 Chesapeake Blvd, Elkton, Maryland 21921.

BASIC FINANCIAL STATEMENTS

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
STATEMENT OF PLAN NET POSITION
AS OF JUNE 30, 2016**

ASSETS

Cash and Cash Equivalents	\$ 423,211
Investments, at Fair Value Institutional Separate Accounts	<u>43,502,742</u>
Total Assets	43,925,953

LIABILITIES

Accounts Payable	<u>9,057</u>
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NET POSITION

Held in Trust for Pension Benefits	<u>\$ 43,916,896</u>
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The accompanying notes to the financial statements are an integral part of this statement.

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
STATEMENT OF CHANGE IN PLAN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

ADDITIONS

Contributions	
Cecil County	\$ 2,288,108
Participants	<u>925,386</u>
 Total Contributions	 <u>3,213,494</u>

INVESTMENT INCOME (LOSS)

Net Depreciation	
in Fair Value of Investments	(1,880,876)
Interest and Dividends	<u>911,647</u>
 Investment Income (Loss)	 (969,229)
 Less: Investment Expense	 <u>(335,161)</u>
 Net Investment Income (Loss)	 <u>(1,304,390)</u>
 Total Additions	 <u>1,909,104</u>

DEDUCTIONS

Pension Benefit Payments	1,672,212
Refunds of Contributions	205,504
Administrative Expense	<u>66,571</u>
 Total Deductions	 <u>1,944,287</u>

Change in Net Position (35,183)

Held in Trust

for Pension Benefits

Net Postion - Beginning	<u>43,952,079</u>
 Net Position - Ending	 <u><u>\$ 43,916,896</u></u>

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

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2016

1. Summary of Significant Accounting Policies

The financial statements of the Cecil County Pension Plan for Public Safety Employees (the Plan) have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principals. During the year ending June 30, 2016, the Plan has adopted all GASB Statements through No. 72, entitled Fair Value Measurement and Application. These statements did not have a material effect on the Plan's financial statements

The following summarizes the Plan's significant accounting policies:

Financial Reporting Entity

The Cecil County Pension Plan for Public Safety Employees was established effective July 1, 2002, under a plan document and trust agreement enacted by the Cecil County Board of Commissioners to provide retirement benefits to certain law enforcement and emergency services personnel. The Plan is a single-employer public employee defined benefit pension plan. Responsibility for the administration and operation of the Plan is vested in a 9-member Board of Trustees appointed by the County Executive and subject to confirmation by the County Council. The County's Human Resources Department and Finance Department provide professional and accounting services as needed.

Although the Plan is a legally separate entity, the County appoints all members of the Plan's Board of Trustees and makes all employer contributions to the Plan. Only County public safety employees can be members of the Plan and the County is financially responsible for the Plan's pension obligations. The Plan is a blended component unit of Cecil County, Maryland, because it provides services and benefits exclusively to the County.

Additional copies of this annual financial report and actuarial information are available from the Cecil County Pension Plan for Public Safety Employees, 200 Chesapeake Blvd., Elkton, Maryland 21921.

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the Plan.

Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. For fixed income securities, fair value may be based on quoted market prices.

The pension plan is authorized by the Plan and a trust agreement with the County Council of Cecil County to establish an investment policy and invest long-term to pay benefits to plan members. The investment policy allocates investments between 1) large, mid and small capitalization stocks,

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2016

and international equities traded on national exchanges; 2) fixed income domestic debt securities traded on national exchanges; and 3) cash equivalents (deposits or short-term investments maturing within a year). Certain investments are prohibited. Specific allocation targets are reviewed annually and are to be diversified as follows:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. Large cap equities	17%
U.S. Mid cap equities	15%
U.S. Small cap equities	20%
International equities	12%
Emerging Markets	3%
Fixed Income	<u>33%</u>
Total	100%

Rate of Return. For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was a negative 2.93%.

Fair Value Measurements

The Plan categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions

2. Plan Membership

Membership of the Plan consisted of the following as of June 30, 2016, provided by the Plan administrator;

Retirees and Beneficiaries receiving Benefits	80
Disabled & Disabled Beneficiaries	4
Vested Terminations not yet eligible to receive benefits	25
Terminated Plan members non-vested and due a return of contribution	75
Inactive Plan Members	3
Active Plan Members	<u>253</u>
Total	440

3. Plan Description Summary

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2016

The following summary description does not replace any Plan documents.

Plan Description and Eligibility: The Plan is a single-employer defined benefit plan that covers all full-time employees on the County's Public Safety Pay Plan hired after June 30, 2002, employees who have opted to convert from the Maryland State Retirement and Pension System (MSRPS) to the Plan, and the Cecil County Sheriff.

Service Benefits: Monthly income for life is based on 2.0% of average annual compensation multiplied by years of service, not to exceed 25 years, divided by 12. Average annual compensation is one third of the compensation of the covered employee during whatever period of 36 consecutive months of creditable service will provide the largest total compensation for any such period.

Vesting: 100% with 5 or more years of eligible service. Contributions are refunded upon termination for less than 5 years of service with interest of 5% on accumulated contributions.

Retirement: Normal – First of the month coincident with or immediately following the earlier of 25 years of eligible service or attainment of age 55 with 5 years of eligible service. Early – with 20 years of eligible service regardless of age, the normal retirement benefit is reduced by 6% per year for each year prior to the normal retirement date.

Disability Benefits: Benefit for ordinary disability is based on years of creditable service. Benefit for disability occurring in the line of duty is a monthly payment of 66.67% of average annual compensation reduced by any social security and worker's compensation benefits; there is no minimum service requirement. Applications are reviewed by a disability review board.

Survivor Benefit: Various depending on the option of the participant.

Death Benefit: Ordinary – After one year of creditable service, the surviving spouse shall receive a lump sum equal to participant's contributions plus interest plus one year of pay. Line of duty – has no eligibility requirement and a monthly benefit is paid to the surviving spouse (for life) or, if there is no surviving spouse, to minor children (until maturity). In the absence of a surviving spouse or minor children, benefits calculated as if ordinary will be paid to a named beneficiary or, lacking this, to the estate of the participant.

4. Contributions

Plan members are required to contribute 8% of the base compensation. Base compensation excludes overtime, extra-remuneration, reimbursed expenses, and essentially excludes tax related adjustments.

Cecil County as the employer is required to make actuarially determined annual contribution amounts.

This Plan is the successor to a plan offered by the State Retirement and Pensions System of Maryland (the State Plan). As such, assets related to participants of the State Plan who opted to become participants of the new plan were transferred to the Plan in several transactions during fiscal years 2003 and 2004.

5. Net Pension Liability of the County

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2016

The County's net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of July 1, 2015 rolled forward to June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Asset Valuation Method	5-year smoothed market
Inflation	2.5%
Salary increases	Rates vary by participant service
Investment rate of return	7.0%, net of pension plan investment expense, including inflation
Mortality	For healthy participants and beneficiaries, the RP-2000 Combined Healthy tables with the Blue Collar adjustment and generational projection by Scale AA. For disabled participants, the table is set forward five years.

The actuarial assumptions used in the June 30, 2016 valuation are partially based on an experience study completed in 2008, reflecting July 1, 2002 to June 30, 2007 experience. However, the Plan hired a new actuary in 2012, who reviewed the assumptions in light of more recent experience and revised a number of assumptions, including the investment return, inflation, salary increase, mortality, employee termination and administrative expense, prior to preparing an experience study. The Plan Trustees will be considering authorizing an experience study in the future.

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 (2.5%). 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>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	52%	6.62%
International equity	12%	7.30%
Emerging Markets	3%	9.66%
Fixed income	33%	1.72%
Cash	0%	0.00%

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

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2016

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 the projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/15	\$ 51,699,078	\$ 43,952,079	\$ 7,746,999
Changes for the year:			
Service cost	2,338,610	-	2,338,610
Interest	3,553,215	-	3,553,215
Diff. btwn expected and actual experience	(736,331)	-	(736,331)
Contributions - employer	-	2,288,108	(2,288,108)
Contributions - member	-	925,386	(925,386)
Net investment income	-	(1,304,390)	1,304,390
Benefit pymnt, inc. refunds member contrib.	(1,877,716)	(1,877,716)	-
Administrative expense	-	(66,571)	66,571
Net Changes	<u>3,277,778</u>	<u>(35,183)</u>	<u>3,312,961</u>
Balances at 6/30/16	<u>\$ 54,976,856</u>	<u>\$ 43,916,896</u>	<u>\$ 11,059,960</u>

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 6.00%	Current Discount rate 7.00%	1% increase 8.00%
County's net pension liability	\$19,364,500	\$11,059,960	\$4,353,260

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2016

6. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the County recognized pension expense of \$2,909,066. As of June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences btwn expected & actual exper.	\$ -	\$ 1,423,418
Changes of assumptions	449,673	-
Net difference btwn projected and actual earnings on pension plan investments	4,514,729	-
Total	\$ 4,964,402	\$ 1,423,418

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 997,125
2018	997,125
2019	997,123
2020	672,332
2021	(122,721)
Total	\$ 3,540,984

7. Cash Deposits and Investment Portfolio Disclosure

Investment policy information was discussed in Note 1. As of June 30, 2016, the Plan had the following investments. Money market mutual funds are classified as cash and cash equivalents on the Statement of Net Assets.

Money Market Mutual Fund	\$ 423,211
Institutional Separate Accounts	43,502,742
Total Investments	\$ 43,925,953

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2016

Below is a list of the Institutional Separate Accounts the Plan was invested in as of June 30, 2016:

MFS Investment Management - Large Cap Stock Growth	\$	4,129,735
Aronson+Johnson+Ortiz (AJO) - Large Cap Stock Value		3,786,324
QMA Fund - Mid Cap Stock Value		3,417,067
Frontier Capital Management - Mid Cap Stock Growth		3,543,263
Prudential Jennison - Small Cap Stock Growth		3,959,810
Integrity Asset Management - Small Cap Stock Value		4,445,191
Pictet Asset Management - International Stock Blend		5,138,812
JP Morgan Emerging Markets -Equity Institutional		1,224,666
Prudential Core Bond Enhanced Index - Fixed Income Domestic		6,866,693
Prudential Core Plus Bond Fund - Fixed Income Domestic		6,991,181
Total Institutional Separate Accounts	\$	43,502,742

The summary below identifies the fair market value level of the investments as of June 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2016
Investments by Fair Value Level:				
Institutional Separate Accounts	-	38,318,266	-	38,318,266
Equity Mutual Funds	5,184,476	-	-	5,184,476
Total Investments at Fair Value	\$ 5,184,476	\$ 38,318,266	\$ -	\$ 43,502,742

Fair Market Value Levels Equity Mutual funds listed on a national market or exchange are valued at the last sales price, or , if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy. Institutional Separate accounts classified in level 2 of the fair value hierarchy are valued based on quoted prices for similar assets in active markets or identical assets in less active markets, such as dealers or broker markets.

Interest Rate Risk: The Plan's formal investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk: The Plan's investment policy applies the prudent person rule to its investments. The Plan invests in institutional separate accounts, which are essentially mutual funds. This sub-advised approach provides the Plan with access to some of the most respected investment professionals in the industry. The investment policy establishes an asset allocation by asset class where allowable ranges are identified by asset class. Rebalancing is performed on at least a quarterly basis, as appropriate, such that the allocation for each asset class shall not exceed the bounds of the allowable ranges. As of June 30, 2016, the Plan complied with the Plan's investment policy.

Credit Risk. No rating was available for the money market mutual fund. The Plan holds ten institutional separate accounts, which were rated by Morning Star, of which seven received a 4 star rating, two of the accounts received a 3 star rating and one account received a 2 star rating, with 5 being the best and 1 being the worst.

REQUIRED SUPPLEMENTARY
INFORMATION
&
OTHER SUPPLEMENTARY
INFORMATION

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
SCHEDULE OF CHANGES IN THE COUNTY'S
NET PENSION LIABILITY AND RELATED RATIOS**

(dollar amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service cost	\$ 2,339	\$ 2,284	\$ 2,198
Interest	3,553	3,327	2,922
Differences between expected and actual experience	(736)	(1,215)	-
Changes of assumptions	-	675	2,298
Benefit payments, including refunds of member contributions	(1,878)	(1,809)	(1,456)
Net change in total pension liability	<u>3,278</u>	<u>3,262</u>	<u>5,963</u>
Total pension liability - beginning	51,699	48,437	42,475
Total pension liability - ending (a)	<u>\$ 54,977</u>	<u>\$ 51,699</u>	<u>\$ 48,437</u>
Plan fiduciary net position			
Contributions - employer	\$ 2,288	\$ 2,200	\$ 2,268
Contributions - member	925	910	878
Net investment income	(1,304)	1,317	6,149
Benefit payments, including refunds of member contributions	(1,878)	(1,809)	(1,456)
Administrative expense	(67)	(47)	(33)
Other		(4)	-
Net change in plan fiduciary net position	\$ (35)	\$ 2,567	\$ 7,805
Plan fiduciary net position - beginning	43,952	41,385	33,580
Plan fiduciary net position - ending (b)	<u>\$ 43,917</u>	<u>\$ 43,952</u>	<u>\$ 41,385</u>
County's net pension liability - ending (a)-(b)	<u>\$ 11,060</u>	<u>\$ 7,747</u>	<u>\$ 7,052</u>
Plan fiduciary net position as a percentage of the total pension liability	79.88%	85.02%	85.44%
Covered employee payroll ¹	\$ 11,638	\$ 11,506	\$ 10,968
County's net pension liability as a percentage of covered-employee payroll	95.04%	67.33%	64.29%
Expected average remaining service years of all participants	6	6	6

¹ Per GASB 82, the amount shown reflect pensionable earnings only

Notes to schedule:

Information for fiscal year 2013 and earlier is not available

Benefit Changes: None

Change of assumptions: None

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
SCHEDULE OF COUNTY CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**
(dollar amounts in thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 2,171	\$ 2,200	\$ 2,268
Contributions in relation to the actuarially determined contribution	2,288	2,200	2,268
Contribution deficiency (excess)	<u>\$ (117)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll ¹	\$ 11,638	\$ 11,506	\$ 10,968
Contributions as a percentage of covered employee payroll	19.66%	19.12%	20.68%

¹ Per GASB 82, the amount shown reflect pensionable earnings only

Notes to schedule:

Valuation date:

Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the year immediately following the fiscal year and the next following 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	No more than 22 years
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary increases	Rates vary by participant 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	For healthy participants and beneficiaries, the RFP-2000 Combined Healthy tables with the Blue Collar adjustment and generational projection by Scale AA. For disabled participants, the table is set forward five years.

Other information: Information for fiscal year 2013 and earlier is not available

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	-2.93%	3.10%	17.88%

Notes to schedule:

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.

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
OTHER SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

SCHEDULE OF ADMINISTRATIVE EXPENSES

Professional Fees	\$ 57,977
Insurance	5,155
Advertising	939
Other	<u>2,500</u>
 Total Administrative Expenses	 <u>\$ 66,571</u>

SCHEDULE OF INVESTMENT EXPENSES

Investment Managers	\$ 300,161
Investment Consultant	<u>35,000</u>
 Total Investment Expenses	 <u>\$ 335,161</u>

SCHEDULE OF PROFESSIONAL FEES PAID TO CONSULTANTS

<u>Type of Service</u>	<u>Consultant</u>	
Administrator	Prudential	\$ 2,495
Auditing	SB & Company, LLC	5,100
Actuary	Bolton Partners, Inc	27,362
Legal	Zauner & Mtimet, P.A	7,844
Legal	McGuireWoods, LLP	10,316
Other	MCMC , LLC	3,360
Other	Animedix	<u>1,500</u>
 Total Payments to Consultants		 <u>\$ 57,977</u>