



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

**ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**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, 2013

### TABLE OF CONTENTS

#### INTRODUCTORY SECTION

	<u>Page</u>
Letter of Transmittal	i
Principal Officials & Consultants	v

#### FINANCIAL SECTION

Report of Independent Public Accountants	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Plan Net Position	6
Statement of Change in Plan Net Position	7
Notes to the Financial Statements	8
Required Supplementary Information	
Schedule of Funding Progress	13
Schedule of Employer Contributions	13
Notes to the Required Supplementary Information	14
Other Supplementary Information	
Schedule of Administrative Expenses	15
Schedule of Investment Expenses	15
Schedule of Professional Fees Paid to Consultants	15





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



October 30, 2013

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, 2013. 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, 2013 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, 2013 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 381 as of June 30, 2013 (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 2013, the Plan formally transitioned its actuarial function from Mercer to Bolton Partners. The Plan submitted and received unanimous approval from the County Council concerning the updated plan and trust documentation to reflect the change in the form of government to Charter, effective December 3, 2012. The Plan also submitted and received approval of a resolution to update the Plan documents to reflect the recently proposed IRS guidelines.

**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 \$7,142,167 were comprised of contributions from the County and plan participants of \$2,988,643, net investment earnings of \$328,098, gain on market value of \$3,825,426 for fiscal year 2013. Deductions to the net position of \$1,409,199 include \$1,265,218 in direct pension payments to participants, \$128,505 return of contributions and interest to terminated

participants and \$15,476 in administrative expenses, resulting in an increase in net position of \$5,732,968 for fiscal year 2013.

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, refund 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 \$1,409,199 in fiscal year 2013. Since its inception in 2002, the Plan has seen annual increases in benefit payments; refunded contributions decreased from \$565,050 in fiscal year 2012 to \$128,505 in fiscal year 2013.

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 2013, the return on investments, net of fees, was 14.47%.

### **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. The actuarial accrued liability and actuarial value of the assets of the Plan as of July 1, 2011, the most recent actuarial valuation, amounted to \$37,691,735 and \$24,993,398, respectively, or 66.3% funded. The previous actuarial valuation showed that the actuarial accrued liability and actuarial value of the assets of the Plan as of July 1, 2009, amounted to \$31,813,317 and \$19,775,437, respectively, or 62.2% funded.

### **Professional Services**

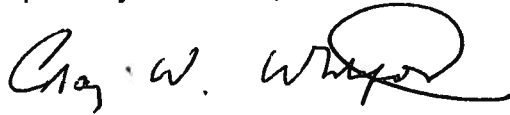
Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the Plan. An opinion from the certified public accountant is included in this report. The consultants appointed by the Board of Trustees are 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, the members of the Department of Finance office, 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 "Craig W. Whiteford". The signature is fluid and cursive, with a large loop at the end.

Craig W. Whiteford  
Chairman

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

**Principal Officials & Consultants**

**June 30, 2013**

**Appointed Officials**

Board of Trustees

Trustee and Chairman	Craig W. Whiteford
Trustee	James M. Alfree
Trustee	Richard K. Brooks, III
Trustee	Jeffrey D. Clewer
Trustee	William L Robinson
Trustee	Raymond Heidel
Trustee	Donna M. Nichols
Trustee	Stephen D. Brownhill
Trustee	Vacant as of June 30, 2013

**Consultants**

Legal Counsel	McGuireWoods, LLP
Independent Public Accountant	SB & Company, LLC
Administrator	Prudential

## FINANCIAL SECTION



## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To the Citizens of Cecil County Maryland,  
County Executive Tari Moore and the Members of the County Council

### **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, 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. 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, 2013, 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.



### *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 funding progress, and schedule of employer contributions 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 30, 2013

*SB & Company, LLC*

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

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **For the Fiscal Year Ended June 30, 2013**

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, 2013.

#### **Financial Highlights**

The assets of the Plan exceeded its liabilities at the close of the fiscal year by \$33,580,020 (net position). As the Plan completed its eleventh year of operation, the Plan's net investment income increased from \$57,501 in 2012 to \$4,153,524 in 2013 mainly due to a much improved stock market in fiscal year 2013. Pension benefits to retired participants increased from \$1,102,667 in 2012 to \$1,265,218 in 2013. Return of contributions and interest to terminating participants decreased from \$565,050 in 2012 to \$128,505 in 2013. As of June 30, 2013, the Plan had 245 active members, 65 retired participants, 1 disabled participant and 18 terminated vested members not yet receiving benefits.

#### **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 14 of this report.

**Additional information.** Other supplementary information is shown on page 15.

**The Cecil County Pension Plan for Public Safety Employees  
Management's Discussion and Analysis, June 30, 2013**

**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, 2013</u>	<u>June 30, 2012</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percentage</u>
<b><u>Assets</u></b>				
Cash and Cash Equivalents	\$ 186,170	\$ 128,482	\$ 57,688	44.9%
Investments, at Fair Value	<u>33,394,317</u>	<u>27,720,273</u>	<u>5,674,044</u>	20.5%
Total Assets	33,580,487	27,848,755	5,731,732	20.6%
<b><u>Liabilities</u></b>				
Total Liabilities	<u>467</u>	<u>1,703</u>	<u>(1,236)</u>	-72.6%
<b><u>Net Position</u></b>				
Held in Trust for Pension Benefits	<u>\$ 33,580,020</u>	<u>\$ 27,847,052</u>	<u>\$ 5,732,968</u>	20.6%

Net Plan position increased by 20.6% to \$33,580,020. The increase in net position of \$5,732,968 was made up of the following components: contributions from employer and active participants of \$2,988,643, net investment income of \$4,153,524, benefit and return of contribution payments of \$1,393,723 and administrative expenses of \$15,476.

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

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease) Amount</u>	<u>Increase (Decrease) Percentage</u>
<b><u>Additions</u></b>				
Contributions	\$ 2,988,643	\$ 3,065,388	\$ (76,745)	-2.5%
Net Investment Income	<u>4,153,524</u>	<u>57,501</u>	<u>4,096,023</u>	7123.4%
Total Additions	7,142,167	3,122,889	4,019,278	128.7%
<b><u>Deductions</u></b>				
Annuity Benefits	1,265,218	1,102,667	162,551	14.7%
Contribution Refunds	128,505	565,050	(436,545)	-77.3%
Administrative Expenses	<u>15,476</u>	<u>56,176</u>	<u>(40,700)</u>	-72.5%
Total Subtractions	<u>1,409,199</u>	<u>1,723,893</u>	<u>(314,694)</u>	-18.3%
<b>Changes in Net Position</b>	<u>\$ 5,732,968</u>	<u>\$ 1,398,996</u>	<u>\$ 4,333,972</u>	309.8%

The Plan experienced an increase of \$5,732,968 in net position in fiscal year 2013. Total contributions decreased \$76,745 or 2.5% over 2012. Net investment income increased year over year by \$4,096,023 as fiscal year 2013 experienced a much improved stock market. In addition,

## **The Cecil County Pension Plan for Public Safety Employees Management's Discussion and Analysis, June 30, 2013**

contribution refunds decreased by \$463,545 mainly to a death benefit paid out in fiscal year 2012. Annuity benefits increased by \$162,551 or 14.7% mainly due to an increase in the number of retired participants. The Plan experienced a \$40,700 or 72.5% decrease in administrative expenses between 2012 and 2013 which is mainly due to an actuarial report completed in fiscal year 2012 costing \$33,521 and a decrease in legal fees of \$5,208. As of June 30, 2013, the Plan had 65 retired participants and 1 disabled participant receiving benefits, which included 6 new retirees during fiscal year 2013. In addition, there were 18 vested terminations not yet eligible to receive benefits as of June 30, 2013. Contribution refunds of \$128,505 were paid to 16 terminated participants in 2013 versus \$565,050 to 15 terminated participants in 2012.

### **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, Director of Human Resources, 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, 2013**

**ASSETS**

Cash and Cash Equivalents	\$ 186,170
Investments, at Fair Value Institutional Separate Accounts	<u>33,394,317</u>
<b>Total Assets</b>	<b>33,580,487</b>

**LIABILITIES**

Accounts Payable	<u>467</u>
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**NET POSITION**

Held in Trust for Pension Benefits (A Schedule of Funding Progress is presented on Page 13.)	<u><u>\$ 33,580,020</u></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, 2013**

**ADDITIONS**

Contributions	
Cecil County	\$ 2,173,305
Participants	<u>815,338</u>
 Total Contributions	 <u>2,988,643</u>

**INVESTMENT INCOME**

Net Appreciation	
in Fair Value of Investments	3,825,426
Interest and Dividends	<u>612,984</u>
	4,438,410
 Less: Investment Expense	 <u>(284,886)</u>
 Net Investment Income	 <u>4,153,524</u>
 Total Additions	 <u>7,142,167</u>

**DEDUCTIONS**

Pension Benefit Payments	1,265,218
Refunds of Contributions	128,505
Administrative Expense	<u>15,476</u>
 Total Deductions	 <u>1,409,199</u>

**Change in Net Position** 5,732,968

**Held in Trust**

**for Pension Benefits**

<b>Net Position - Beginning</b>	<u>27,847,052</u>
 <b>Net Position - Ending</b>	 <u><u>\$ 33,580,020</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, 2013**

**1. Summary of Significant Accounting Policies**

The accounting and reporting policies of the Cecil County Pension Plan for Public Safety Employees (the Plan) conform in all material respects to generally accepted accounting principles (GAAP) in the United States as applicable to pension plans sponsored by governmental entities. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). The Plan has adopted all GASB Statements through No. 70 except for No. 67 and 68 which are listed below and which the County plans to adopt by their effective dates after evaluating the effects of these pronouncements.

Statement No. 67 Financial Reporting for Pension Plans—an amendment of GASB Statement No 25  
Statement No. 68 Accounting and Financial Reporting for Pensions—an amendment of GASB No 27

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 Department of Human Resources, 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 Cecil County Pension Plan for Public Safety Employees  
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2013**

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, 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.

**2. Plan Membership**

Membership of the Plan consisted of the following as of June 30, 2013, provided by the Plan administrator

Retirees and Beneficiaries receiving Benefits	65
Disabled & Disabled Beneficiaries	1
Vested Terminations not yet eligible to receive benefits	18
Terminated Plan members non-vested and due a return of contribution	52
Active Plan Members	<u>245</u>
Total	<u>381</u>

**3. Plan Description Summary**

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.

**The Cecil County Pension Plan for Public Safety Employees**  
**Notes to the Financial Statements for the Fiscal Year Ended June 30, 2013**

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. Funded Status and Funding Progress**

The funded status of the plan as of July 1, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Projected Unit Cost Method	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAAL as a Percentage of Covered Payroll
July 1	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
2011	\$ 24,993,398	\$ 37,691,735	\$ 12,698,337	66.3%	\$ 10,439,660	121.6%

Three year Historical Trend Information for the plan is as follows:

Fiscal Year Ended June 30	Annual Pension Cost	Percentage of ARC Covered	Net Pension Obligation
2011	2,019,471	100%	-
2012	2,220,158	100%	-
2013	2,173,305	100%	-

A schedule of funding progress showing multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits is

**The Cecil County Pension Plan for Public Safety Employees  
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2013**

presented as required supplementary information (RSI) on page 13.

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2011
Actuarial cost method	Projected Unit Cost Method
Amortization method	Level percentage - closed
Asset valuation method	5 year smoothed market value
Actuarial assumptions:	
Investment rate of return	7.50% compounded annually
Projected salary increases	11.0% for first five years of service, 10.0% annually for the next five years, and 5.75% annually thereafter
Cost of living adjustments	3.0% annually

Due to Plan changes and assumptions which resulted in additional liability, the remaining amortization period has been adjusted. Below is the latest actuarial schedule as June 30, 2011:

Original unfunded liability	20 years
Plan change	25 years
Assumption change	11 years
Actuarial (gain)/loss	15 years

**6. Cash Deposits and Investment Portfolio Disclosure**

Investment policy information was discussed in Note 1. As of June 30, 2013, the Plan had the following investments. Money market mutual funds are classified as cash and cash equivalents on the Statement of Net Assets.

**Investments**

Money Market Mutual Fund	\$ 186,170
Institutional Separate Accounts	<u>33,394,317</u>
<b>Total Investments</b>	<u><u>\$ 33,580,487</u></u>

**The Cecil County Pension Plan for Public Safety Employees**  
**Notes to the Financial Statements for the Fiscal Year Ended June 30, 2013**

Below is a list of the Institutional Separate Accounts the Plan was invested in as of June 30, 2013:

MFS Investment Management - Large Cap Stock Growth	\$	2,946,052
Aronson+Johnson+Ortiz (AJO) - Large Cap Stock Value		2,970,419
Frontier Capital Management - Mid Cap Stock Growth		2,543,355
Systematic Financial Management - Mid Cap Stock Value		2,517,355
Columbus Circle Investors - Small Cap Stock Growth		3,435,545
Integrity Asset Management - Small Cap Stock Value		3,516,491
Pictet Asset Management - International Stock Blend		5,038,137
PIMCO Core Plus Bond Fund - Fixed Income Domestic		5,184,671
Prudential Core Bond Enhanced Index - Fixed Income Domestic		5,242,292
<b>Total Institutional Separate Accounts</b>	<b>\$</b>	<b>33,394,317</b>

**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, 2013, the Plan complied with the Plan's investment policy.

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

**THE CECIL COUNTY PENSION PLAN  
FOR PUBLIC SAFETY EMPLOYEES  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2013**

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Cost Method (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2002	\$ 4,930,633	\$ 12,312,475	\$ 7,381,842	40.0%	\$ 6,089,345	121.2%
2003	6,783,242	14,038,972	7,255,730	48.3%	6,426,628	112.9%
2004	8,665,871	16,498,936	7,833,065	52.5%	7,061,252	110.9%
2005	10,717,426	18,301,914	7,584,488	58.6%	7,249,072	104.6%
2006	12,928,657	21,635,271	8,706,614	59.8%	7,827,147	111.2%
2007*	15,442,512	26,337,765	10,895,253	58.6%	8,894,702	122.5%
2009**	19,775,437	31,813,317	12,037,880	62.2%	10,405,176	115.7%
2011**	24,993,398	37,691,735	12,698,337	66.3%	10,439,660	121.6%

\* Reflects changes in Plan actuarial assumptions.

\*\* Actuarial report is completed every two years.

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Years Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Covered	Net Pension Obligation
2004	\$ 1,055,473	100%	\$ -
2005	1,160,256	100%	-
2006	1,251,450	100%	-
2007	1,274,061	100%	-
2008	1,410,479	100%	-
2009	1,753,647	100%	-
2010	1,798,040	100%	-
2011	2,019,471	100%	-
2012	2,220,158	100%	-
2013	2,173,305	100%	-

**The Cecil County Pension Plan for Public Safety Employees  
Notes to the Required Supplementary Information  
for the Year Ended June 30, 2013**

**Funding Progress**

The Plan inception date is July 1, 2002.

The information presented was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	June 30, 2011
Actuarial Cost Method	Projected Unit Cost Method
Amortization Method	Level Percentage - Closed
Original Unfunded Liability	20 Years
Plan Change	25 Years
Assumption Change	11 Years
Actuarial (Gain)/Loss	15 Years
Asset Valuation Method	5-year Smoothed Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.50 % compounded annually
Projected Salary Increases	11.0% annually for the first five years, 10.0% annually for the next five years, and 5.75% annually thereafter
Cost-of-Living Adjustments	3.0% annually

**THE CECIL COUNTY PENSION PLAN  
FOR PUBLIC SAFETY EMPLOYEES  
OTHER SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2013**

**SCHEDULE OF ADMINISTRATIVE EXPENSES**

Professional Fees	\$ 11,004
Insurance	4,472
Advertising	<u>-</u>
Total Administrative Expenses	<u>\$ 15,476</u>

**SCHEDULE OF INVESTMENT EXPENSES**

Investment Managers	\$ 249,886
Investment Consultant	<u>35,000</u>
Total Investment Expenses	<u>\$ 284,886</u>

**SCHEDULE OF PROFESSIONAL FEES PAID TO CONSULTANTS**

<u>Type of Service</u>	<u>Consultant</u>	
Administrator	Prudential	\$ 1,994
Auditing	SB & Company, LLC	4,700
Legal	McGuireWoods, LLP	3,278
Other	ADP	1,032
Other	Other	<u>-</u>
Total Payments to Consultants		<u>\$ 11,004</u>