

Howard County Retirement Plan
Financial Statements
and Independent Auditors' Report
June 30, 2012 and 2011

Howard County Retirement Plan

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Independent Auditors' Report

Retirement Plan Committee
Howard County Retirement Plan

We have audited the accompanying statements of plan net assets available for benefits of Howard County Retirement Plan, a pension trust fund of Howard County, Maryland, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the plan net assets and changes in plan net assets of the Plan and are not intended to present the financial position and results of operations of Howard County, Maryland.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the plan net assets of the Howard County Retirement Plan as of June 30, 2012 and 2011, and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such required supplementary information, except for the information marked unaudited, has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

As described in note 5, the financial statements for the year ended June 30, 2011 have been restated.

CohnReznick LLP

Baltimore, Maryland
November 21, 2012

Howard County Retirement Plan

Statements of Plan Net Assets Available for Benefits

June 30, 2012 and 2011

	2012	(Restated) 2011
<u>Assets</u>		
Receivables		
Employer contributions	\$ 468,623	\$ 832,938
Employee contributions	94,056	172,131
Interest and dividends	499,274	470,105
Due from sale of investments	2,082,156	428,230
Other	32,875	25,055
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Total receivables	3,176,984	1,928,459
	<hr/>	<hr/>
Investments		
Common stocks	65,567,553	76,288,278
Mutual funds	86,802,620	80,814,820
Money market funds	3,340,398	1,944,990
Fixed income	84,357,123	82,233,352
Real estate funds	13,767,466	12,237,931
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Total investments	253,835,160	253,519,371
	<hr/>	<hr/>
Prepaid insurance	10,492	24,871
	<hr/>	<hr/>
Total assets	257,022,636	255,472,701
	<hr/>	<hr/>
<u>Liabilities</u>		
Investments purchased	813,032	314,688
Accounts payable	212,202	268,879
	<hr/>	<hr/>
Total liabilities	1,025,234	583,567
	<hr/>	<hr/>
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 14)	\$ 255,997,402	\$ 254,889,134
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See notes to financial statements

Howard County Retirement Plan

Statements of Changes in Plan Net Assets Available for Benefits

Years ended June 30, 2012 and 2011

	2012	(Restated) 2011
Additions		
Contributions		
Employer	\$ 10,718,696	\$ 10,303,986
Employee	2,457,523	2,168,696
Total contributions	13,176,219	12,472,682
Investment income		
Net (depreciation) appreciation in fair value of investments	(9,761,713)	36,698,628
Interest	2,131,130	2,246,630
Dividends	5,203,179	4,786,061
Other, net	54,993	43,527
	(2,372,411)	43,774,846
Less investment expense	944,107	1,019,571
Net investment (loss) income	(3,316,518)	42,755,275
Total additions	9,859,701	55,227,957
Deductions		
Benefits		
Annuities	8,264,341	7,243,894
Death	60,002	261,885
Refunds of contributions	193,198	123,651
Total benefits	8,517,541	7,629,430
Administration expenses	233,892	239,161
Total deductions	8,751,433	7,868,591
Net change	1,108,268	47,359,366
Net assets held in trust for pension benefits		
Beginning of year	254,889,134	207,529,768
End of year	\$ 255,997,402	\$ 254,889,134

See notes to financial statements

Howard County Retirement Plan

Notes to Financial Statements

June 30, 2012 and 2011

Note 1 - Description of Plan

The Howard County Retirement Plan (the Plan) is a single-employer defined benefit public employee retirement system established and administered by Howard County, Maryland (the County), to provide defined pension benefits for those County employees who do not participate in other County and State plans. The Plan was established on July 1, 1995, at which time approximately 73% of the County's employees transferred from the State Retirement and Pension Systems of Maryland to the Plan. The Plan 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 accompanying financial statements present only the operations of the Plan and are not intended to present the financial position and results of the operations of the County.

At July 1, 2011 and 2010, the Plan's membership consisted of:

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Active	1,520	1,521	-0.1%
Retired and beneficiaries	428	399	7.3%
Disabled	11	5	120.0%
Terminated vested	181	171	5.8%
Total	<u>2,140</u>	<u>2,096</u>	2.1%

The Plan was established, is operated, and may be amended under the provisions of the Howard County Code, Sections 1.400 and 1.401 to 1.478. Substantially all of the County's full-time benefited and part-time benefited employees (excluding career firefighters and sworn police officers) are eligible to participate in the Plan, except as provided for in Howard County Code Section 1.406. The Pension Oversight Commission established by Howard County Code Section 1.482 provides ongoing assessment and evaluation of the Plan's operations.

The Plan provides retirement benefits as well as death and disability benefits and cost-of-living adjustments. Participants attaining the age of 62 who have completed two years of eligibility service and the sum of attained age in whole years and years of eligibility service equal at least 67, or participants who have completed 30 years eligibility service, are entitled to a normal retirement benefit. After July 1, 2005, normal retirement is also defined as 20 years of service for participating Corrections employees. For non-Corrections participants, the benefit is 1.55% of the participant's average compensation times the participant's creditable service. Effective July 1, 2011, for AFSCME Local 3085 Employees, the benefit is 1.66% of the participant's average compensation time creditable service.

Howard County Retirement Plan

Notes to Financial Statements - Continued

June 30, 2012 and 2011

The Plan permits early retirement for participants who attain the age of 55 and have completed 15 years of eligibility service. The benefit is reduced by .50% for each month the benefit commencement date precedes the first day of the month coincident with or next following the date the participant attains age 62. For participants who reach a termination date after August 31, 2002, early retirement is also provided to participants who achieve 25 years of eligibility service. This benefit is reduced by .50% for each month the benefit commencement date precedes 30 years of eligibility service; or .50% for each month the retiree's age precedes age 62, if less.

Participating Corrections employees who retire on or after July 1, 2005 are entitled to receive a normal retirement benefit of 2.5% of average compensation multiplied by years of creditable service (up to 20 years) plus 1% of average compensation multiplied by service greater than 20 years but less than 30 years (excluding sick leave, which is always credited at 1% of average compensation). Prior to July 1, 2005, other rules applied. The benefit was 2.0% of average compensation multiplied by post-1997 creditable service. The benefit for pre-1998 creditable service is 1.55% or 2%, depending on phase-in rules.

Participants become vested after five years of eligibility service and are entitled to a benefit beginning at age 62. An employee who leaves before becoming vested (5 years) is entitled to a refund of his or her employee contributions with interest. Employee contributions are credited with 5% interest, compounded annually, through the end of the fiscal year in which the employee terminates and 2% interest each year thereafter. For employees who terminated prior to July 1, 2006, contributions earn 5% interest for all years.

A participant who becomes totally and permanently disabled may retire prior to normal retirement and receive a benefit.

Note 2 - Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized as revenue in the period in which employee services are performed and expenses and refunds are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefits are recorded when the payments are made.

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

Howard County Retirement Plan

Notes to Financial Statements - Continued

June 30, 2012 and 2011

estimates that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Method Used to Value Investments

The Plan's investments are reported at fair market value. Short-term investments consisting of money market funds are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is approximated by the net asset value of the Plan's share of ownership of the co-mingled real estate investment funds. Fair value of other securities is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities.

Concentration of Credit Risk

The Plan's investment policy does not establish any limitation on the percentage that the Plan may have with any one issuer, other than to state that the Plan's assets are to be diversified in accordance with Modern Portfolio Theory. At June 30, 2012, the Plan had 38.26% of its investments in mutual funds, 7.93% in corporate bonds, and 7.27% in limited partnership units.

Investments Purchased and Due from Sales of Investments

Investment transactions are recorded on a trade plus three days or less timetable resulting in an amount due to and due from State Street Bank at year end.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of plan net assets available for benefits.

Income Taxes

The Internal Revenue Service issued a determination letter on December 1, 1995, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from Federal income taxes. In the opinion of the Plan administrator, the Plan and its underlying trust have operated within the terms of the Plan and remain qualified under the applicable provisions of the Internal Revenue Code.

Howard County Retirement Plan

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Subsequent Events

Material subsequent events have been considered for disclosure and recognition in these financial statements through November 21, 2012.

Note 3 - Contributions and Reserves

The Plan is authorized to establish or amend the obligation to make contributions under the provisions of the Howard County Code, Sections 1.423 and 1.465. The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Participant contributions are 8.5% of base pay for participating Corrections employees with less than 20 years of creditable service, 0% for participating Correction employees with greater than 20 years of creditable service and are 2.0% of base pay for other participants. Effective July 1, 2011, participant contributions are 3.0% of base pay for AFSCME Local 3085 Employees. In fiscal years 2012 and 2011, the County contribution to the Plan was 11.9% of covered payroll for all participants. Expenses incurred in the administration and operation of the Plan are funded by the Plan.

The Plan has not established any legally required reserves; therefore, the net assets are held in trust to fund current and future benefit obligations.

Note 4 - 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 (dollar amounts in millions):

Actuarial Valuation Date of July 1,	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll
2011	\$ 253.1	\$ 273.7	92.5%	\$ 20.6	\$ 86.5	23.8%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, presents multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AALs for benefits. Changes pursuant to the most recent Experience Study are reflected below.

Howard County Retirement Plan

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Projected unit credit cost method
Amortization method	Level percentage of payroll that increases 3.0% a year
Remaining amortization period	No more than 14 years to 28 years, except for actuarial gains and losses which are amortized over a 15-year open amortization period and with payments increasing 3.0% a year
Asset valuation method	Five-year smoothed market
Actuarial assumptions	
Investment rate-of-return	8%, compounded annually, gross of investment expenses
Projected salary increases	4.0% to 7.0%*
Cost-of-living adjustments	3%, compounded annually

*Includes inflation at 3.0%.

Howard County Retirement Plan

Notes to Financial Statements - Continued

June 30, 2012 and 2011

Note 5 - Restatement

During the year ended June 30, 2012, management noted that the allocation ratios used to determine investments at fair value between the Plan and the Howard County Police and Fire Employees' Retirement Plan were incorrectly calculated as of and for the year ended June 30, 2011. The effect of this restatement is as follows:

Statements of Plan Net Assets

	<u>Originally Stated</u>	<u>Change</u>	<u>As restated</u>
<u>Investments</u>			
Common stocks	\$ 77,070,849	\$ (782,571)	\$ 76,288,278
Mutual funds	81,643,824	(829,004)	80,814,820
Money market funds	1,951,481	(6,491)	1,944,990
Fixed income	83,076,907	(843,555)	82,233,352
Real estate funds	<u>12,363,469</u>	<u>(125,538)</u>	<u>12,237,931</u>
 Total investments	 <u>\$ 256,106,530</u>	 <u>\$ (2,587,159)</u>	 <u>\$ 253,519,371</u>
 Net assets held in trust for pension benefits	 <u>\$ 257,476,293</u>	 <u>\$ (2,587,159)</u>	 <u>\$ 254,889,134</u>

Statements of Changes in Plan Net Assets

	<u>Originally Stated</u>	<u>Change</u>	<u>As restated</u>
<u>Investment income</u>			
Net appreciation in fair value of investments	\$ 38,791,182	\$ (2,092,554)	\$ 36,698,628
Interest	2,246,630	-	2,246,630
Dividends	4,786,061	-	4,786,061
Other, net	<u>43,527</u>	<u>-</u>	<u>43,527</u>
 Total investment income	 <u>\$ 45,867,400</u>	 <u>\$ (2,092,554)</u>	 <u>\$ 43,774,846</u>
 Net change	 49,451,920	 (2,092,554)	 47,359,366
 Net assets held in trust for pension benefits			
Beginning of year	<u>208,024,373</u>	<u>(494,605)</u>	<u>207,529,768</u>
 End of year	 <u>\$ 257,476,293</u>	 <u>\$ (2,587,159)</u>	 <u>\$ 254,889,134</u>

Required Supplementary Information

Howard County Retirement Plan

Required Supplementary Information

**Schedule of Funding Progress
(Dollar amounts in millions)
(Unaudited)**

June 30, 2012

Actuarial Valuation Date of July 1,	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll
2006	\$ 165.9	\$ 181.2	91.5%	\$ 15.3	\$ 71.4	21.5%
2007	\$ 193.0	\$ 199.7	96.6%	\$ 6.7	\$ 72.5	9.3%
2008	\$ 217.2	\$ 225.6	96.3%	\$ 8.4	\$ 81.5	10.3%
2009	\$ 228.1	\$ 245.2	93.0%	\$ 17.1	\$ 85.2	20.1%
2010	\$ 237.4	\$ 253.8	93.6%	\$ 16.4	\$ 84.8	19.3%
2011	\$ 253.1	\$ 273.7	92.5%	\$ 20.6	\$ 86.5	23.8%

Notes to Schedule of Funding Progress:

Analysis of the dollar amounts of Plan assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing Plan net assets as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued actuarial liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

Howard County Retirement Plan

Required Supplementary Information - Continued

**Schedule of Employer Contributions
(Unaudited)**

June 30, 2012

<u>Years ended June 30,</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2007	\$ 9,694,709	100%
2008	\$ 10,022,075	100%
2009	\$ 9,745,024	100%
2010	\$ 9,584,920 *	102%
2011	\$ 10,303,986	100%
2012	\$ 10,538,550 *	102%

* The amounts funded by the County for the years ended June 30, 2012 and 2010 were \$10,718,696 and \$9,757,621, respectively.