

**HOWARD COUNTY POLICE AND FIRE
EMPLOYEES' RETIREMENT PLAN**

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2020 AND 2019



CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Retirement Plan Committee
Howard County Police and Fire Employees' Retirement Plan
Howard County, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Howard County Police and Fire Employees' Retirement Plan (the Plan), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated October 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Plan's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 23, 2020



Retirement Plan Committee
Howard County Police and Fire Employees' Retirement Plan
Howard County, Maryland

We have audited the financial statements of the Howard County Police and Fire Employees' Retirement Plan (the Plan) as of and for the year ended June 30, 2020, and have issued our report thereon dated October 23, 2020. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Plan are described in Note 2 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2020.

We noted no transactions entered into by the Plan during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- The valuation of alternative investments are a management estimate which is primarily based upon net asset values reported by the investment managers. The values for these investments are reported based upon the most recent financial data available. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, we reviewed management's estimate and found it to be reasonable.
- Management's estimate of the net pension liability is based on computations performed by outside specialists, including actuarial computations and assumptions that were relied upon. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Corrected misstatements

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

Disagreements with management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the attached management representation letter dated October 23, 2020.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Plan's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the Plan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Other information in documents containing audited financial statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * *

This communication is intended solely for the information and use of the Retirement Plan Committee and management of Howard County Police and Fire Employees' Retirement Plan and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 23, 2020



HOWARD COUNTY DEPARTMENT OF FINANCE

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October 23, 2020

CliftonLarsonAllen LLP
1966 Greenspring Drive, Suite 300
Timonium, Maryland 21093

This representation letter is provided in connection with your audit of the financial statements of Howard County Police and Fire Employees' Retirement Plan (the Plan), which comprise the fiduciary net position as of June 30, 2020 and 2019, and the related changes in fiduciary net position for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of October 23, 2020, the following representations made to you during your audits.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated April 14, 2020, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. We acknowledge and have fulfilled our responsibility for 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. All significant plan amendments, adopted during the period or subsequent to the date of the financial statements, and their effects on benefits and fiduciary net position have been disclosed in the financial statements.
7. No events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.
8. We have not identified or been notified of any uncorrected financial statement misstatements.
9. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
10. Guarantees, whether written or oral, under which the Plan is contingently liable, if any, have been properly recorded or disclosed in accordance with U.S. GAAP.
11. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the financial statement date and have been reduced to their estimated net realizable value.
12. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
14. With respect to actuarial assumptions and valuations:
 - a. We agree with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the total pension liability and have no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to the actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of the actuary.
 - b. There were no omissions from the participant data provided to the actuary for the purpose of determining the total pension liability and other actuarially determined amounts in the financial statements.
 - c. There have been no changes in the actuarial methods or assumptions used in calculating the amounts recorded or disclosed in the financial statements, except as made known to you and disclosed in the financial statements.
 - d. There have been no changes in plan provisions between the actuarial valuation date and the date of this letter.

15. We believe the plan and trust established under the plan are qualified under the appropriate section of the Internal Revenue Code, and we intend to continue them as a qualified plan and trust.
16. We are not aware of any present legislative intentions to terminate the Plan.
17. All material concentrations have been properly disclosed in accordance with U.S. GAAP. We understand that concentrations include the nature and type of investments held by the Plan, or markets for which events could occur which would significantly disrupt normal finances within the next year.

Information Provided

1. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the Plan from whom you determined it necessary to obtain audit evidence.
 - d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - e. All actuarial valuation reports prepared for the plan during the year.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any fraud or suspected fraud that affects the Plan and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Plan's financial statements communicated by employees, former employees, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts or abuse whose effects should be considered when preparing financial statements.

7. We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
9. We have disclosed to you the identity of the Plan's related parties and all the related party relationships and transactions of which we are aware.
10. We have a process to track the status of audit findings and recommendations.
11. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
12. We are responsible for compliance with the laws, regulations, and provisions of contracts applicable to the entity; and we have identified and disclosed to you all laws, regulations, and provisions of contracts that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
13. The Plan has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
14. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
15. Investments and derivative instruments are properly valued.
16. The values of non-readily marketable investments represent good faith estimates of fair value. The methods and significant assumptions used result in a measure of fair value appropriate for financial measurement and disclosure purposes.
17. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
18. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
19. As part of your audit, you prepared the draft financial statements and related notes, as needed. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial

statements and related notes. We have also ensured that the Plan's data and records are complete and received sufficient information to oversee the service.

20. In regards to the any non-attest services performed by you, we have:

- a. Made all management judgments and decisions and assumed all management responsibilities.
- b. Designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee the services.
- c. Evaluated the adequacy and results of the services performed.
- d. Accepted responsibility for the results of the services.

Signature: Rafimflin Title: Director of Finance

Signature: Wanda S. Hutchinson Title: HR Administrator

**HOWARD COUNTY POLICE AND FIRE
EMPLOYEES' RETIREMENT PLAN
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INDEPENDENT AUDITORS' REPORT

Retirement Plan Committee
Howard County Police and Fire Employees' Retirement Plan
Howard County, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Howard County Police and Fire Employees' Retirement Plan (the Plan) as of and for the years ended June 30, 2020 and 2019, 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

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.

Auditors' Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors' 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 Plan'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 Plan'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 opinions.

Retirement Plan Committee
Howard County Police and Fire Employees' Retirement Plan

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2020 and 2019, and the changes in financial position for the years 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 (MD&A) on pages 3 through 9, Schedule of Changes in the County's Net pension Liability and Related Ratios, the Schedule of County Contributions, and the Schedule of Investment Returns on pages 26 through 28 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 audits 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020 on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 23, 2020

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

Introduction

The Howard County Police and Fire Employees' Plan (the Plan) is a single-employer defined benefit public employee retirement plan administered by Howard County, Maryland, which provides retirement benefits as well as death and disability benefits and cost-of-living adjustments.

Responsibilities for administration and operation of the Police and Fire Plan are vested in a Retirement Committee with seven members (Committee). The Committee has authority to establish and amend the respective benefit and contribution provisions.

Membership Data

	<u>07/01/19</u>	<u>07/01/18</u>	<u>07/01/17</u>
Active	929	900	904
Retired and beneficiaries	389	370	341
Disabled	36	34	33
Terminated vested	22	18	18
Total	<u>1376</u>	<u>1322</u>	<u>1296</u>

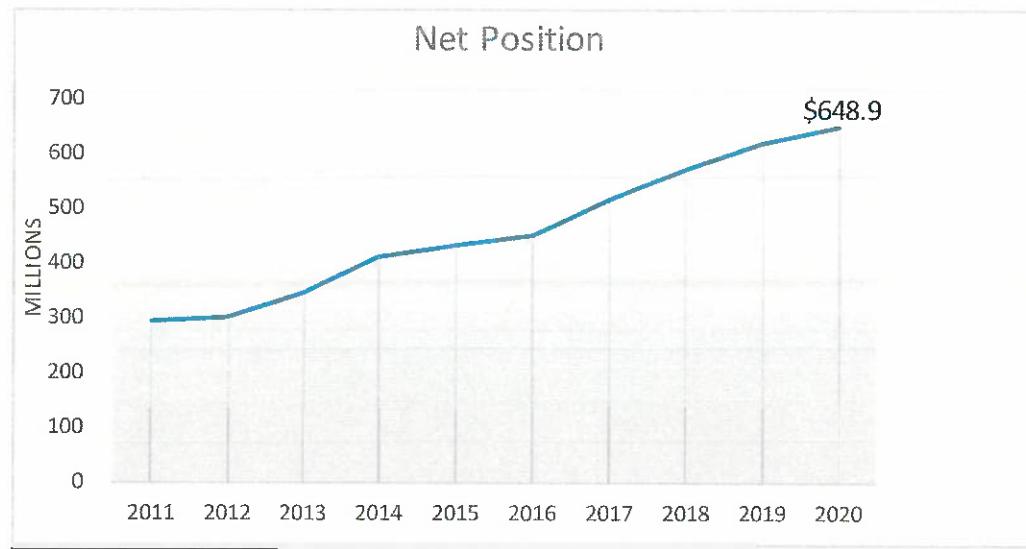
Financial Highlights

As of June 30, 2020, the net position was \$648.9 million, as compared to \$619.4 million at June 30, 2019. The increase in net position of \$29.5 million was attributable to the following factors:

- Contributions of \$39.3 million, an increase of \$3.4 million from the previous year;
- Net investment income of \$25.0 million, a decrease of \$14.7 million from the previous year. The decrease is due to COVID-19 and markets reaction with historically fast-paced declines. The severity of the decline was mitigated by the actions of the Federal Reserve among other measures;
- Benefit payments and administrative expense of \$34.7 million, an increase of \$6.7 million from the previous year.

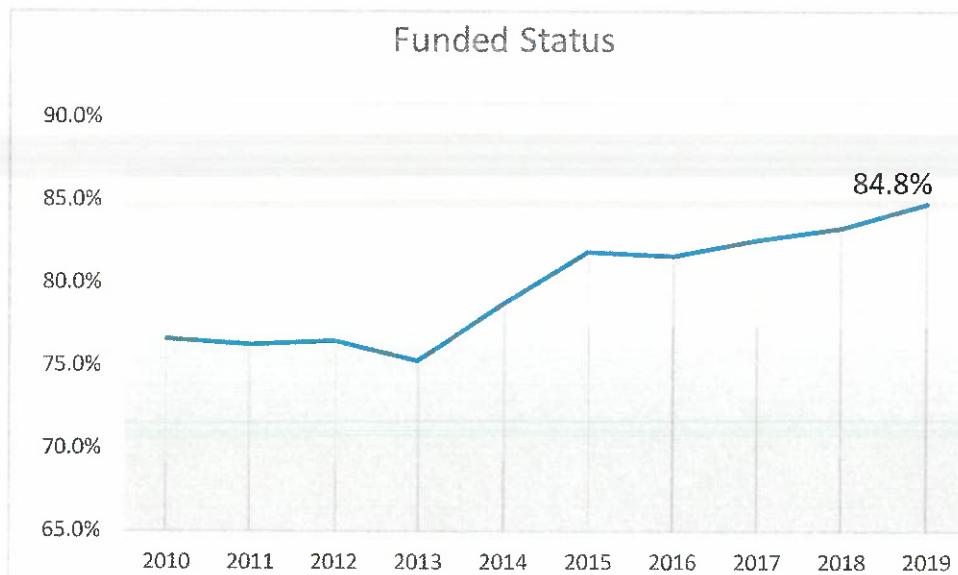
	Fiscal Year*		
	2020	2019	2018
Contributions	\$ 39.29	\$ 35.84	\$ 34.20
Benefit payments	\$ 34.32	\$ 27.57	\$ 24.76
Contribution rates	35.4%	33.1%	32.5%
# of benefit recipients	456	424	399

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019



Funded Status

The plan's funding objective is to meet long-term benefit obligations through contributions and investment income. The funding ratio, which is the actuarial value of assets divided by the actuarial accrued liability is an estimate of how well the Plan is meeting that objective. A higher ratio indicates the Plan is better funded. The funded ratio of the Plan was 84.8% and 83.3% as of July 1, 2019 and July 1, 2018.



HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

Overview of the Basic Financial Statements

In this financial report, the basic financial statements consist of the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position with accompanying notes as of and for the year ended June 30, 2020 with comparative information as of and for the year ended June 30, 2019. The financial position is comprised of assets, which primarily consist of investments less liabilities, including accounts payable and investment commitments payable.

The Statement of Changes in Fiduciary Net Position presents the additions to and deductions from the Plan's net position during the year. The Plan receives contributions from participants and the County, as well as income or losses from investments and related activities. The primary deductions are the payment of benefits, which are the Plan's primary objectives. Deductions also include refunds to members who leave the Plan as well as administrative expenses.

Notes to the Basic Financial Statements

The Notes to Financial Statements contain disclosures and discussions which support the data presented in the financial statements. The notes present information about the administration of the Plan, significant accounting policies, and investments. The notes are an integral part of the financial statements and should be considered in conjunction with any review of the financial statements.

Required Supplementary Information (RSI)

The RSI section provides actuarially determined information about the Plan and displays changes for the Plan's Net Pension Liability (NPL) and related ratios, contributions related to payrolls by the Plan, and money-weighted investment returns.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

The following Condensed Statements of Fiduciary Net Position and Changes in Fiduciary Net Position present financial information for the Plan and compares fiscal years 2020, 2019, and 2018.

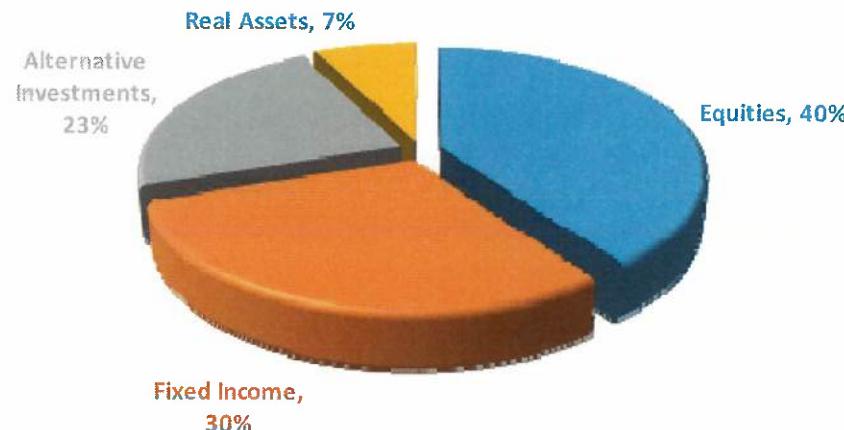
	2020	2019	2018	Percentage Change	Percentage Change
Assets					
Receivables	\$ 3,366,415	\$ 2,990,656	\$ 2,646,768	13 %	13 %
Investments	647,124,282	619,810,895	569,822,514	4 %	9 %
Prepaid Insurance	24,071	24,071	24,554	- %	(2)%
Total Assets	<u>650,514,768</u>	<u>622,825,622</u>	<u>572,493,836</u>	4 %	9 %
Liabilities					
Investment Purchased	1,184,365	3,081,835	213,144	(62)%	1346 %
Accounts Payable	453,370	385,354	378,656	18 %	2 %
Total Liabilities	<u>1,637,735</u>	<u>3,467,189</u>	<u>591,800</u>	(53)%	486 %
Net Position Held in Trust for Pension Benefits	<u>\$ 648,877,033</u>	<u>\$ 619,358,433</u>	<u>\$ 571,902,036</u>	5 %	8 %
Additions					
Employer Contributions	\$ 31,105,248	\$ 27,719,839	\$ 26,337,085	12 %	5 %
Employee Contributions	8,183,867	8,124,859	7,859,400	1 %	3 %
Investment Income	24,964,140	39,639,186	46,560,088	(37)%	(15)%
Total Additions	<u>64,253,255</u>	<u>75,483,884</u>	<u>80,756,573</u>	(15)%	(7)%
Deductions					
Benefit Payments and Refunds	34,321,194	27,571,300	24,755,084	24 %	11 %
Administrative Expense	413,461	456,187	355,240	(9)%	28 %
Total Deductions	<u>34,734,655</u>	<u>28,027,487</u>	<u>25,110,324</u>	24 %	12 %
Net Change	29,518,600	47,456,397	55,646,249	(38)%	(15)%
Net Position Held in Trust for Pension Benefits:					
Beginning of Year	\$ 619,358,433	\$ 571,902,036	\$ 516,255,787	8 %	11 %
End of Year	<u>\$ 648,877,033</u>	<u>\$ 619,358,433</u>	<u>\$ 571,902,036</u>	5 %	8 %

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

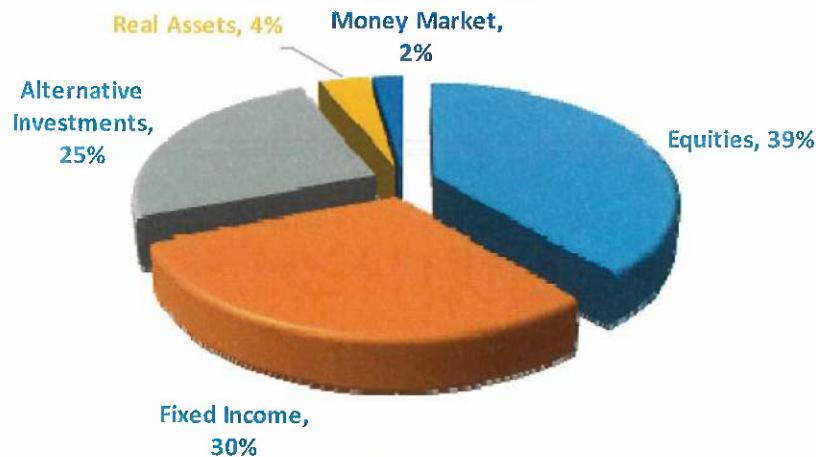
Investment

Investments consist of US equities (large cap and non-large cap), international equities (international developed markets and international emerging markets), fixed income, real assets, money market and alternatives (private equities and hedge funds). The Plan is a participant in a combined pension investment pool and it does not own an undivided interest in specific assets of the Pool. The investments presented by category are the Plan's proportionate share of the investments by category of the Pool that are reported at fair value.

TARGET ALLOCATION



INVESTMENT POOL

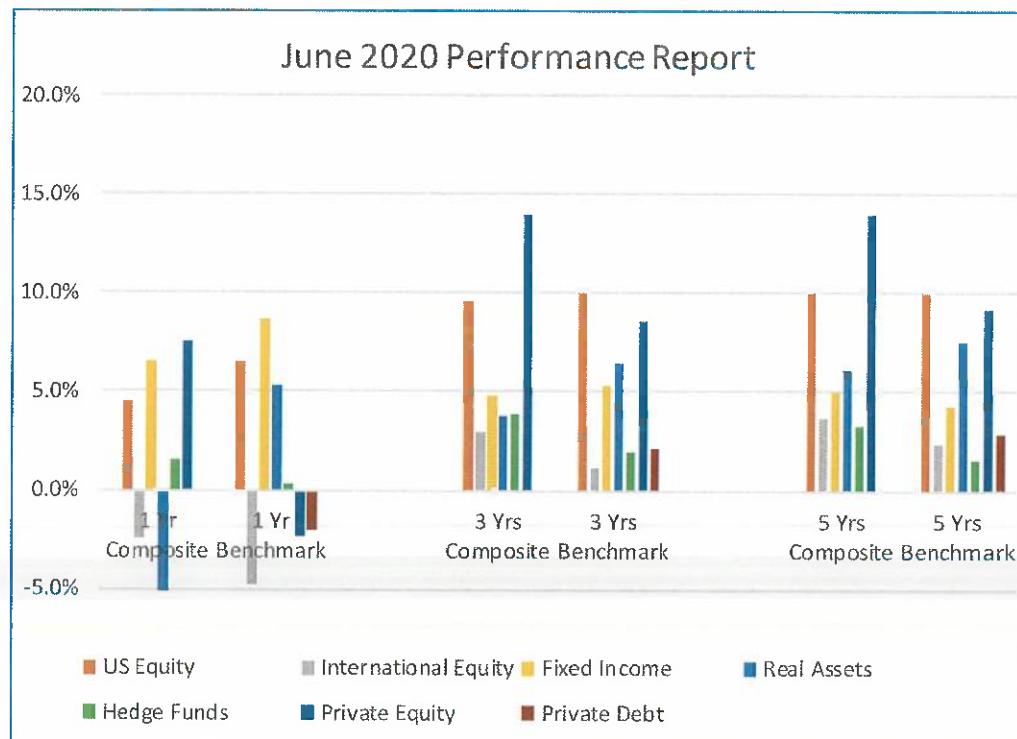


HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

LONG TERM EXPECTED RATE OF RETURN	
Equities	5.19%
Fixed Income	2.16%
Alternative Investments	5.61%
Real Assets	4.84%

Investment Performance Summary

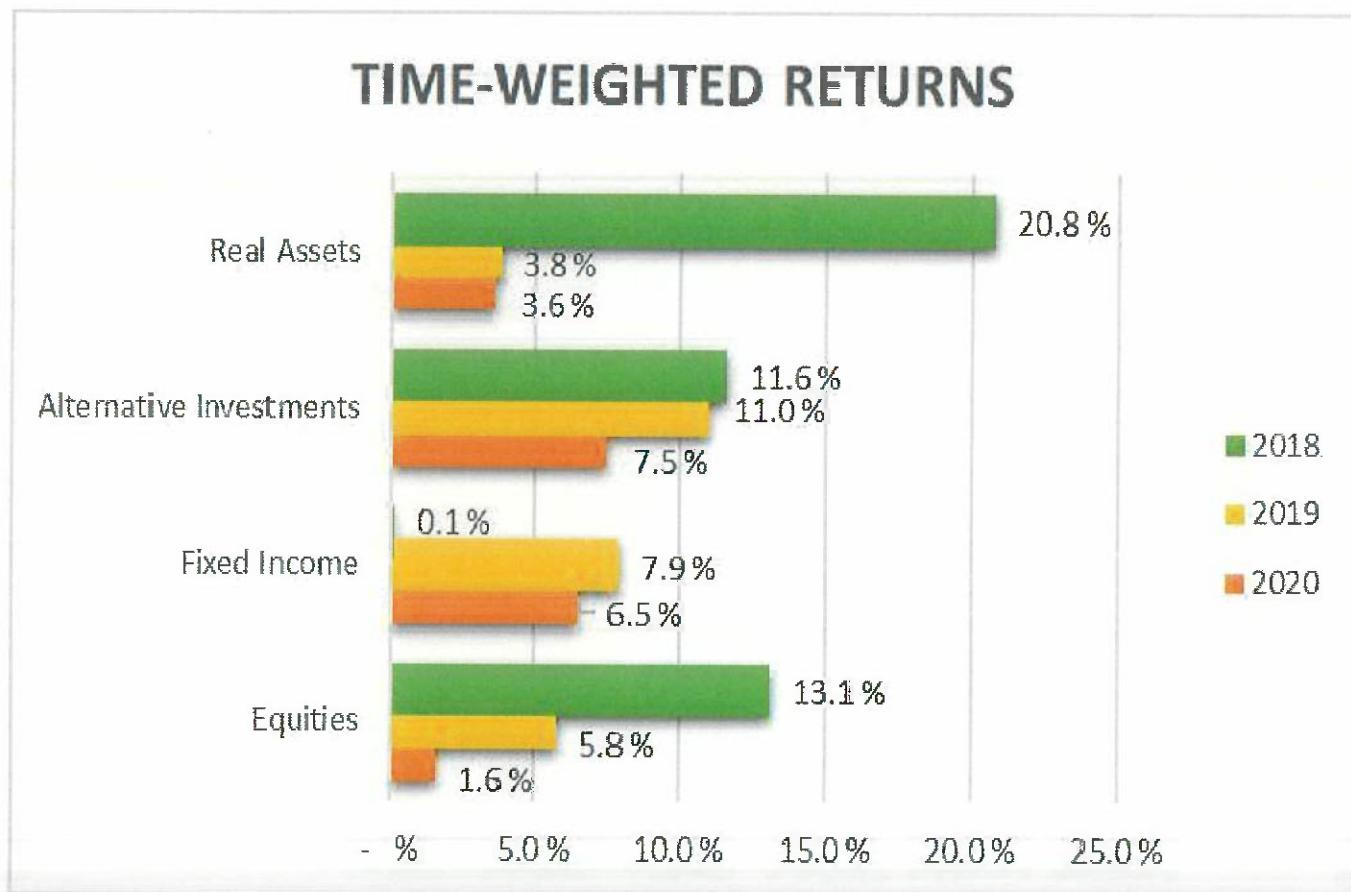
The retiree's benefit is paid from investment earnings and contributions. Displayed below is a comparison of the portfolio's returns (composite) to its policy benchmark in one year, three years and five years:



Note: The performance listed may not reflect final returns as of the date listed as private markets report investment returns on a quarter basis lag.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

The investment Pool's time-weighted returns (gross of fees) are displayed by investment type in the following table.



Additional Information

The Plan's financial statements are presented in accordance with accounting principles generally accepted in the United States of America and are available at Howard County's web page at www.howardcountymd.gov/Departments/Finance/Financial-Information/Audit-Information.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Receivables:		
Employer Contributions	\$ 1,962,266	\$ 1,730,621
Member Contributions	516,661	461,866
Interest and Dividends	607,988	684,444
Due from Sale of Investments	266,964	105,120
Other	<u>12,536</u>	<u>8,605</u>
Total Receivables	<u>3,366,415</u>	<u>2,990,656</u>
Investments:		
Money Market	15,721,518	11,362,564
Equities	251,320,810	260,994,079
Fixed Income	195,682,778	173,607,071
Alternative Investments	159,882,515	152,450,363
Real Assets	<u>24,516,661</u>	<u>21,396,818</u>
Total Investments	<u>647,124,282</u>	<u>619,810,895</u>
Prepaid Insurance	<u>24,071</u>	<u>24,071</u>
Total Assets	<u>650,514,768</u>	<u>622,825,622</u>
LIABILITIES		
Investment Purchases	1,184,365	3,081,835
Accounts Payable	<u>453,370</u>	<u>385,354</u>
Total Liabilities	<u>1,637,735</u>	<u>3,467,189</u>
Fiduciary Net Position Held in Trust for Pension Benefits	<u>\$ 648,877,033</u>	<u>\$ 619,358,433</u>

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ADDITIONS:		
CONTRIBUTIONS		
Employer	\$ 31,105,248	\$ 27,719,839
Member	8,183,867	8,124,859
Total Contributions	<u>39,289,115</u>	<u>35,844,698</u>
INVESTMENT INCOME		
Net Appreciation in Fair Value of Investments	10,608,211	24,600,895
Interest	2,767,142	2,862,178
Dividends	13,190,515	13,753,018
Other, Net	65,121	87,464
Total Investment Income	<u>26,630,989</u>	<u>41,303,555</u>
Less: Investment Expense	1,666,849	1,664,369
Net Investment Income	<u>24,964,140</u>	<u>39,639,186</u>
Total Additions	64,253,255	75,483,884
DEDUCTIONS:		
BENEFITS		
Annuities	33,784,301	26,921,102
Death	347,620	358,869
Refunds of Contributions	189,273	291,329
Total Benefits	<u>34,321,194</u>	<u>27,571,300</u>
ADMINISTRATIVE EXPENSES	<u>413,461</u>	<u>456,187</u>
Total Deductions	<u>34,734,655</u>	<u>28,027,487</u>
NET CHANGE	29,518,600	47,456,397
FIDUCIARY NET POSITION HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	<u>619,358,433</u>	<u>571,902,036</u>
End of Year	<u>\$ 648,877,033</u>	<u>\$ 619,358,433</u>

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 PLAN DESCRIPTION

Plan Administration

The Howard County Police and Fire Employees' Retirement Plan (the Plan) is a single-employer defined benefit public employee retirement system established and administered by Howard County (the County), Maryland, to provide defined pension benefits for career firefighters and sworn police officers. 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 operations of the County.

Plan Membership

At July 1, 2019 and 2018, the Plan's membership consisted of the following:

	2019	2018
Active	929	900
Retired and Beneficiaries	389	370
Disabled	36	34
Terminated Vested	22	18
Total	1,376	1,322

The Plan was established, is operated, and may be amended under the provisions of Sections 1.400 and 1.401A to 1.478A of the Howard County Code. All of the County's full-time career firefighters and sworn police officers are eligible to participate in the Plan. The Retirement Plan Committee established by Howard County Code Section 1.455A has full power and authority to administer and operate the Plan in accordance with its terms and in particular the authority contained in subsection 1.454A. The Pension Oversight Commission established by Howard County Code, Section 1.482 provides ongoing assessment and evaluation of the Plan's operations.

Benefits Provided

All of the County's full-time career police and fire officers hired on or after July 1, 1990 must enroll in the Police and Fire Plan. The Plan provides retirement benefits as well as death and disability benefits and cost-of-living adjustments.

Participants become vested after 5 years of eligibility service and are entitled to a benefit beginning at age 62. Terminated vested employees with less than 20 years of service will receive a benefit equal to 2.5% of average compensation times the number of years of creditable service, payable at age 62. If an employee leaves employment or dies before 5 years of eligibility service, accumulated employee contributions plus interest are refunded to the employee or the designated beneficiary. A participant who becomes totally and permanently disabled may retire prior to normal retirement and receive a benefit. Both disability and death benefits vary if incurred in the line of duty.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 PLAN DESCRIPTION (CONTINUED)

Benefits Provided (Continued)

Employees who attain the age of 62 with at least 5 years of eligibility service and employees who have completed 20 years of eligibility service, if at least 10 years were served as a covered employee, are entitled to a normal retirement benefit. The amount will vary, based on the number of years of creditable service, from 50% (with 20 years of service) to 80% (with 30 years of service) of average compensation for police; and from 50% (with 20 years of service) to 70% (with 30 years of service) of average compensation for firefighters.

Benefits in pay status are adjusted annually for a post retirement cost of living adjustment (COLA). The Plan uses the Consumer Price Index (CPI-U) for the Baltimore-Columbia-Towson area as published by the Bureau of Labor Statistics to calculate the change in retiree allowances each July. The maximum annual COLA is 2%.

Contributions

The Plan is authorized to establish or amend the obligations to make contributions under the provisions of the Howard County Code, Sections 1.423A and 1.465A. 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 adequate assets to pay benefits when due. Participant contributions are 11.6% of base pay for participating Police Department Employees and 7.7% of base pay for participating Fire and Rescue Department Employees. The County funds the remainder of the cost of employees' participation in the Plan, which was 35.4% and 33.1% of covered payroll in fiscal years 2020 and 2019, respectively. The County contribution to the Plan is determined through an actuarial valuation performed by Bolton Partners, Inc. for each fiscal year. Expenses incurred in the administration and operation of the Plan are funded by the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

Method Used to Value Investments

The Plan's investments are maintained in a combined investment pool. The Plan does not own an undivided interest in specific assets of the Pool. The investments presented by category are the Plan's proportionate share of the investments by category of the Pool and are reported at fair value. Short-term investments consisting of money market funds are reported at amortized cost, which approximates fair value. Securities traded on a national or international exchanges are valued at the last reported sales price at current exchange rates. Securities that do not have an established market are reported at estimated fair value derived from third-party pricing services. Purchases and sales of investments are recorded on a trade date basis. The fair values of real estate investments are based on net asset values (NAV) provided by the investment managers. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the fund's current share price.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS
(CONTINUED)**

Method Used to Value Investments (Continued)

The Plan invests in assets measured at NAV and include private equity, equity hedge, real assets and international equity funds, which are collectively considered alternative investments. Alternative investments include interests in limited partnerships and limited liability companies invested in venture capital, private equities, and other investments. These investments are recorded based on net asset value amounts established by the respective fund managers as a practical approximation of fair value. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ materially from the amount reported.

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

Income Taxes

The Internal Revenue Service issued a determination letter on September 28, 2016, 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.

NOTE 3 INVESTMENTS

Investment Policy

The Plan's policy in regard to the allocation of invested assets is established and administered by the Retirement Plan Committee. Specific investment goals stated in the policy are reviewed at least annually and, when appropriate, new goals and standards are adopted by the Retirement Plan Committee. The policy is expected to provide diversification of assets in an effort to maximize investment return to the Plan consistent with prudent market and economic risk. All of the Plan's assets are to remain invested at all times in the asset classes as designated by the policy.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 INVESTMENTS (CONTINUED)

Investment Policy (Continued)

The following strategic asset allocation policy was adopted by the Plan on March 21, 2002, last amended on April 25, 2019 and remained in effect as of June 30, 2020:

Asset Class	Target Allocation
Equities	40.0 %
Fixed Income	30.0
Alternative Investments	23.0
Real Assets	7.0
Total	<u>100.0 %</u>

Concentrations

The Plan held investments in the following organizations that represent 5% or more of the pension plan's fiduciary net position: Baillie Gifford (5%), Blackrock (7%), Dodge and Cox (11%), Magnitude (5%), PIMCO (11%), and Westfield (8%).

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, foreign currency 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 the amounts reported in the statements of fiduciary net position.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 INVESTMENTS (CONTINUED)

Risks and Uncertainties (Continued)

Interest Rate Risk

The Plan's investment policy does not place any limits on the professional investment managers with respect to the duration of investments for the Plan. The Plan's fixed income investments by maturity and type at June 30, 2020 were as follows:

Investment Type	Fair Value/ NAV	Weighted Average Maturity (in Years)
Corporate Bonds	\$ 33,165,261	15.33
U.S. Government - Sponsored Enterprises	17,668,915	23.30
Government Issued/Treasuries	4,314,041	1.76
Other Asset-Backed Securities	3,504,894	22.00
Collateralized Mortgage Obligations	5,683,033	44.55
Municipal Securities	1,607,828	15.91
Commingled Funds and Preferred Stock	-	
Identified as Fixed Income for Reporting Purposes	<u>129,738,806</u>	Not Available
Total	<u><u>\$ 195,682,778</u></u>	
Portfolio Weighted Average Maturity of Available Categories		19.47

Standard & Poor's Rating or Comparable	Fair Value
AAA to A-	\$ 11,501,472
BBB to BB-	26,601,509
Not Rated	157,579,797
Total	<u><u>\$ 195,682,778</u></u>

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 INVESTMENTS (CONTINUED)

Risks and Uncertainties (Continued)

Interest Rate Risk (Continued)

The Plan's fixed income investments by maturity and type at June 30, 2019 were as follows:

Investment Type	Fair Value/ NAV	Weighted Average Maturity (in Years)
Corporate Bonds	\$ 31,019,487	11.93
U.S. Government - Sponsored Enterprises	23,654,822	25.13
Government Issued/Treasuries	6,420,024	7.04
Other Asset-Backed Securities	3,855,392	22.78
Collateralized Mortgage Obligations	2,801,717	39.77
Municipal Securities	1,326,841	16.40
Commingled Funds and Preferred Stock		
Identified as Fixed Income for Reporting Purposes	104,528,788	Not Available
Total	\$ 173,607,071	
Portfolio Weighted Average Maturity of Available Categories		17.82
Standard & Poor's Rating or Comparable	Fair Value	
AAA to A-	\$ 10,274,811	
BBB to BB-	25,724,504	
Not Rated	137,607,756	
Total	\$ 173,607,071	

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, 2020, the Plan's investments did not exceed 5% with any one issuer other than as identified on page 15.

Custodial Credit Risk

State Street Bank invests in Government Short-Term Investment Fund (GSTIF), which is included in money markets on the Statement of Fiduciary Net Position, on behalf of the Plans. At fiscal year-end, the amount in this fund at amortized cost which approximates fair value was \$12,478,345, which was partially used for settlement of open purchases of \$1,184,365. All other investments of the fund are held by State Street Bank as trustee in the Plan's name.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 3 INVESTMENTS (CONTINUED)

Risks and Uncertainties (Continued)

Credit Risk - Currency Forward Contract

One of the Plan's investment objectives is to diversify assets in accordance with the Modern Portfolio Theory (MPT) in order to reduce overall risk. Consistent with this objective, the Plan has participated in a mutual fund that holds three-month currency forward contracts. This strategy is undertaken to protect the dollar value of underlying international investments. The hedging is restricted to 100% of the underlying asset value and 50% of the total Fund value. At fiscal year-end, there were no hedges in place.

Foreign Currency Risk

The Plan's exposure to foreign currency risk derives from its investments in foreign currency or instruments denominated in foreign currency. Investments in such securities are limited to a maximum net currency exposure of 37.0% at any given time. The Plan was exposed to foreign currency risk through the Pool's investments in Euro denominated alternative investments. The Pool total of these investments was \$16,295,302 and \$17,753,986 at June 30, 2020 and June 30, 2019, respectively. The Plan's proportionate share was \$9,232,613 and \$10,020,231 at June 30, 2020 and June 30, 2019, respectively.

Rate of Return

For the fiscal year ended June 30, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.1%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amount actually invested.

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 (the "Plan's Trustee") at year-end.

NOTE 4 FAIR VALUE MEASUREMENT

The Plan investments are reported at fair value. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, as follows:

- *Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.
- *Level 2* – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation of other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- *Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)

The assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The table below reflects the Plan's proportionate share of the Pool's investments by type and fair value hierarchy established by accounting principles generally accepted in the United States of America as of June 30:

	June 30, 2020	Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt Securities:				
Collateralized Mortgage Obligations (Fannie Mae and Freddie Mac and GNMA)	\$ 5,683,033	\$ -	\$ 5,683,033	\$ -
Corporate Bonds	33,165,261	-	33,165,261	-
Commingled Funds (Fixed Income)	90,486,477	22,185,417	68,301,060	-
FHLMC and FNMA Bonds	17,668,915	-	17,668,915	-
U.S. Treasury Securities	4,314,041	-	4,314,041	-
Municipal Bonds	1,607,828	-	1,607,828	-
Other Asset Backed Securities	3,504,893	-	3,504,893	-
Preferred Stock	629,104	629,104	-	-
Total Debt Securities	<u>157,059,552</u>	<u>22,814,521</u>	<u>134,245,031</u>	<u>-</u>
Equity Securities:				
Common Stocks	143,282,013	143,282,013	-	-
Small Company Portfolio	6,764,629	6,764,629	-	-
Emerging Markets Value Portfolio	46,446,049	46,446,049	-	-
Real Estate Investment Trusts (REITS)	898,359	898,359	-	-
Total Equity Securities	<u>197,391,050</u>	<u>197,391,050</u>	<u>-</u>	<u>-</u>
Total Investment by Fair Value Level	<u>354,450,602</u>	<u>\$ 220,205,571</u>	<u>\$ 134,245,031</u>	<u>\$ -</u>
Asset Value (NAV):				
Private Equity Funds	89,493,459			
Private Credit Funds	710,588			
Equity Hedge Funds	69,678,468			
Real Assets Funds	24,516,661			
International Equity Funds	29,596,299			
Commingled Fund within International Equities	24,333,460			
Commingled Fund within International Fixed Income	24,800,678			
Commingled Fund within Domestic Fixed Income	<u>13,822,549</u>			
Total Investments Measured at the NAV	<u>276,952,162</u>			
Total Investments Measured at Fair Value*	<u>\$ 631,402,764</u>			

*Net of money market funds totaling \$15,721,518 which includes securities that have maturities of less than one year and may be measured at amortized cost.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)

	Fair Value Measurement Using					
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	(Level 1)	(Level 2)	(Level 3)
June 30, 2019						
Investments by Fair Value Level						
Debt Securities:						
Collateralized Mortgage Obligations (Fannie Mae and Freddie Mac and GNMA)	\$ 2,801,717	\$ -	\$ 2,801,717	\$ -	\$ -	\$ -
Corporate Bonds	31,019,487	-	31,019,487	-	-	-
Commingled Funds (Fixed Income)	65,328,509	-	65,328,509	-	-	-
FHLMC and FNMA Bonds	23,654,821	-	23,654,821	-	-	-
U.S. Treasury Securities	6,420,024	-	6,420,024	-	-	-
Municipal Bonds	1,326,841	-	1,326,841	-	-	-
Other Asset Backed Securities	3,855,392	-	3,855,392	-	-	-
Preferred Stock	739,652	739,652	-	-	-	-
Total Debt Securities	<u>135,146,443</u>	<u>739,652</u>	<u>134,406,791</u>	<u>-</u>	<u>-</u>	<u>-</u>
Equity Securities:						
Common Stocks	133,629,268	133,629,268	-	-	-	-
Small Company Portfolio	12,873,557	12,873,557	-	-	-	-
Emerging Markets Value Portfolio	53,773,422	53,773,422	-	-	-	-
Real Estate Investment Trusts (REITS)	2,477,670	2,477,670	-	-	-	-
Total Equity Securities	<u>202,753,917</u>	<u>202,753,917</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investment by Fair Value Level	<u>337,900,360</u>	<u>\$ 203,493,569</u>	<u>\$ 134,406,791</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>
Asset Value (NAV):						
Private Equity Funds	83,608,172					
Equity Hedge Funds	68,842,191					
Real Assets Funds	21,396,818					
International Equity Funds	34,157,911					
Commingled Fund within International Equities	24,082,251					
Commingled Fund within International Fixed Income	25,741,445					
Commingled Fund within Domestic Fixed Income	12,719,183					
Total Investments Measured at the NAV	<u>270,547,971</u>					
Total investments Measured at Fair Value*	<u>\$ 608,448,331</u>					

* Net of money market funds totaling \$11,362,564, which includes securities that have remaining maturities of less than 1 year and may be measured at amortized cost.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy refers to securities not traded on an active market but for which observable market inputs are readily available. Fixed income securities are priced on a daily basis, market to market, using a variety of third-party pricing sources, market data and methodologies.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Private Equity Funds	\$ 89,493,459	\$ 28,495,914	Illiquid	N/A
Private Credit Funds	710,588	13,453,945	Illiquid	N/A
Hedge Fund 1	34,843,099	-	Quarterly	65 days
Hedge Fund 2	34,835,369	-	Semi Annually	95 days
Real Assets Funds	24,516,661	15,841,233	Illiquid	N/A
International Equity Funds	29,596,299	-	Monthly	15 days
Commingled Fund within International Equities	24,333,460	-	Weekly	3 days
Commingled Fund within International Fixed Income	24,800,678	-	Bi-monthly	5 days
Commingled Fund within Domestic Fixed Income	13,822,549	-	Daily	1 day
Total	<u>\$ 276,952,162</u>			

1. **Private Equity Funds:** Private equity investment strategies include buyout, venture capital, growth capital, and special situations. Investments in the asset class are achieved primarily through commingled funds and may also include direct and co-investment opportunities. The objective of the asset class is to provide high long-term returns. Exposures are diversified by manager, region, strategy, and vintage year. Private equity investments are illiquid and distributions are received over the life of the investments, which can range between 10 and 15 years. These investments do not have set redemption schedules therefore options for exit are limited to sale on the secondary market. Capital commitments are made to these types of investments and funds are invested through a call down structure.
2. **Commingled Fund within Private Credit:** This strategy will focus on identifying market dislocations and credit-intensive assets, specifically in loan portfolios, corporate securities, structured credit, hard assets and special opportunities. The objective of the fund is to return a 1.5-1.7X multiple and a net IRR of 15% over the life of the fund, which can range between 6 and 8 years. The fund employs a flexible and opportunistic mandate allowing for investments in an assortment of securities which allows it to remain an active investor in a variety of transactions irrespective of market conditions and geographies. The fair value of the partnership interest is based on NAV provided by the General Partner. The partnership's financial statements are audited annually as of December 31 and the NAV is adjusted quarterly by additional contributions to and distributions from the partnership, the net earnings and losses, and unrealized gains and losses resulting from changes in fair value, as determined by the General Partner.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)

3. Equity Hedge Funds: This represents investments in two Hedge FOF managers. Each FOF manager invests in underlying hedge funds to provide a broadly diversified portfolio. One invests with 10-20 underlying managers/funds to execute its global market strategy. The other invests in 20-40 underlying managers/funds in a relative value mandate. The hedge fund strategy is designed to diversify by manager/fund to reduce single manager/fund risk while offering portfolio diversification and provide a return profile that is uncorrelated to the rest of the assets in the portfolio. The fair values of the investments are determined using the NAV per share (or its equivalent) of the investments. These funds have liquidity restrictions of 3 to 6 months.
4. Real Asset Funds: This represents funds that invest in institutional real estate (office, multi-family, industrial, and retail) and natural resources strategies. The fair values of the investments in these strategies are determined using the NAV per share (or its equivalent) of the Plan's ownership interest in partnership's capital. The real estate strategies deployed include a U.S. focused property strategy (core to core plus) and a global FOF strategy. The global FOF manager invests in 20-30 underlying managers/funds. The natural resources investments are through FOF strategies. The natural resource managers invest in 10-25 underlying relationships as they build a diversified portfolio with exposure to oil, natural gas, agriculture, timber, and other natural resources. Capital commitments are made to these types of investments and funds are invested through a call down structure. These funds have liquidity restrictions for the life of the investment, 7-10 years. Options for exit are limited to sale on the secondary market.
5. International Equity Funds: This represents investments primarily in value oriented equity securities of international developed markets (non-U.S. issuers; e.g., MSCI EAFE) with the objective of achieving a long-term return above a passive benchmark (EAFE). This manager focuses on a dividend discount model value based philosophy for publicly traded equity. All securities are recorded at fair value. Foreign securities are valued on the basis of quotations from the primary market in which they are traded and translated at each valuation date from the local currency into U.S. dollars using current exchange rates. The Fund may enter into forward foreign currency exchange contracts primarily to hedge against foreign currency exchange rate risks on its non-U.S. dollar-denominated investment securities.
6. Commingled Fund within International Equities: This represents investments made in predominantly listed large and mega capitalization securities in emerging markets. The objective of this fund is to achieve a long-term return above a passive benchmark (e.g. MSCI EM Index). The manager employs a flexible research intensive investment approach to own high quality businesses over the long term. NAVs are normally calculated as of 4:00pm Eastern Time for each business day the relevant exchange is open. Securities for which market quotations are readily available and reliable are to be valued using the applicable market quotations.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 FAIR VALUE MEASUREMENT (CONTINUED)

7. Commingled Fund within International Fixed Income: This represents investments primarily in a globally diversified portfolio of high quality sovereign bonds and currencies in emerging markets (non-U.S. issuers; e.g. MSCI EM). The objective of this fund is to generate income, preserve capital, and enhance principal above a passive benchmark (JP Morgan GBI-EM Global Diversified Index). NAV for the Fund is only calculated twice a month on the last business day and the 15th (or next business day if the 15th is a nonbusiness day). The ownership interest is only in the units of the Fund, not the underlying holding or securities of the Fund.
8. Commingled Fund within Domestic Fixed Income: The Strategy is managed using an "indexing" investment approach by which the manager attempts to approximate, before expenses, the performance of the Index (e.g. Bloomberg Barclays U.S. Treasury Inflation Protected Securities Index) over the long term. The manager expects that it will typically seek to replicate Index returns for the Portfolio through investments in the "cash" markets – actual holdings of debt securities and other instruments – rather than through "notional" or "synthetic" positions achieved through the use of derivatives, such as future contracts or swap transactions (except in the unusual case where the manager believes that use of derivatives is necessary to achieve an exposure that is not readily available through the cash markets). NAVs are normally calculated as of 4:00pm Eastern Time for each business day the relevant exchange is open. Securities for which market quotations are readily available and reliable are to be valued using the applicable market quotations.

NOTE 5 DEFERRED RETIREMENT OPTION PROGRAM

The Plan offers a program called Deferred Retirement Option Plan (DROP). This is a voluntary benefit program which offers qualified active Participants, who would be entitled to retire and receive benefits, the option to continue working. An individual DROP record is created and is credited with the monthly retirement benefits that would have been paid during the DROP period had the participant actually retired. The record is also credited with the required employee contributions and interest. The DROP record is paid to the employee, in addition to the benefit payment entitled under the defined benefit plan based on the earlier years of service, when the employee eventually retires. Participating members may elect distribution as one lump sum payment, a rollover or in monthly payments. The balance held by the Plan as of June 30, 2020 and 2019 was \$17,447,885 and \$19,468,853, respectively.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 NET PENSION LIABILITY OF THE COUNTY

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

	2020	2019
Total Pension Liability	\$ 779,728,093	\$ 741,184,555
Plan Fiduciary Net Position	<u>(648,877,033)</u>	<u>(619,358,433)</u>
County's Net Pension Liability	<u><u>\$ 130,851,060</u></u>	<u><u>\$ 121,826,122</u></u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.22%	83.56%
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Actuarial Assumptions

The total pension liability in the July 1, 2019 actuarial valuation rolled forward to June 30, 2020 was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.65%
Salary Increases	Varies by Service, 4.25% to 7.75%, Including Inflation
Investment Rate of Return	7.40%, Net of Pension Plan Investment Expense, Including Inflation
Mortality	RP-2014 Combined Healthy Tables with Generational Projection from 2006 Base Year Using Scale MP-2017

The actuarial assumptions used in this valuation, for GASB 67 purposes, were generally based on the 2018 Experience Study covering the period from July 1, 2013 through June 30, 2017. Economic assumptions and the demographic assumptions were updated to reflect the 2013-2017 experience study.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimate of arithmetic real rates of return for each major asset class are reviewed every four years.

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 NET PENSION LIABILITY OF THE COUNTY (CONTINUED)

Best estimates of geometric real rates of return for each major asset class, included in the Plan's target allocation as of June 30, 2020 (see Note 3), are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equities	5.19%
Fixed Income	2.16%
Alternative Investments	5.61%
Real Assets	4.84%

Discount Rate

The discount rate used to measure the total pension liability was 7.40%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the County contributions will be made at rates equal to the difference between total actuarially determined contribution rates and the employee rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate changed from 7.45% to 7.40% for the year ended June 30, 2020.

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 7.40%, 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 (6.40%) or 1 percentage point higher (8.40%) than the current rate:

	1% Decrease (6.40%)	Current Discount Rate (7.40%)	1% Increase (8.40%)
County's Net Pension Liability	<u>\$ 241,746,998</u>	<u>\$ 130,851,060</u>	<u>\$ 40,151,168</u>

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE COUNTY'S NET PENSION LIABILITY AND RELATED RATIO
(DOLLAR AMOUNTS IN THOUSANDS)
LAST 10 FISCAL YEARS
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY							
Service Cost	\$ 23,123	\$ 22,278	\$ 21,109	\$ 19,163	\$ 18,974	\$ 17,708	\$ 17,535
Interest	53,578	50,713	46,900	43,426	39,998	36,208	33,630
Changes of Benefit Terms	-	-	-	-	(1,705)	-	-
Differences Between Expected and Actual Experience	(8,607)	(2,667)	13,530	6,319	7,599	(1,596)	-
Changes of Assumptions	4,770	3,936	-	-	-	16,621	14,989
Benefit Payments, Including Refunds of Member Contributions	(34,320)	(27,572)	(24,755)	(20,422)	(17,890)	(18,941)	(15,679)
Net Change in Total Pension Liability	38,544	46,688	56,784	48,486	46,976	50,000	50,475
Total Pension Liability - Beginning	741,184	694,496	637,712	589,226	542,250	492,250	441,775
Total Pension Liability - Ending (a)	\$ 779,728	\$ 741,184	\$ 694,496	\$ 637,712	\$ 589,226	\$ 542,250	\$ 492,250
PLAN FIDUCIARY NET POSITION							
Contributions - Employer	\$ 31,105	\$ 27,720	\$ 26,337	\$ 24,729	\$ 21,636	\$ 22,530	\$ 20,822
Contributions - Member	8,183	8,125	7,859	7,387	7,041	7,006	6,526
Net Investment Income	24,964	39,639	46,560	55,956	6,459	11,531	54,733
Benefit Payments, Including Refunds of Member Contributions	(34,321)	(27,571)	(24,755)	(20,421)	(17,889)	(18,941)	(15,679)
Administrative Expense	(412)	(457)	(355)	(344)	(327)	(368)	(271)
Net Change in Plan Fiduciary Net Position	29,519	47,456	55,646	67,307	16,920	21,758	66,131
Plan Fiduciary Net Position - Beginning	619,358	571,902	516,256	448,949	432,029	410,271	344,140
Plan Fiduciary Net Position - Ending (b)	\$ 648,877	\$ 619,358	\$ 571,902	\$ 516,256	\$ 448,949	\$ 432,029	\$ 410,271
County's Net Pension Liability - Ending (a)-(b)	\$ 130,851	\$ 121,826	\$ 122,594	\$ 121,456	\$ 140,277	\$ 110,221	\$ 81,979
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.22%	83.56%	82.35%	80.95%	76.19%	79.67%	83.35%
Covered Payroll	\$ 87,868	\$ 83,746	\$ 81,037	\$ 80,814	\$ 72,121	\$ 70,406	\$ 67,169
County's Net Pension Liability as a Percentage of Covered Payroll	148.92%	145.47%	151.28%	150.29%	194.50%	156.55%	122.05%
Expected Average Remaining Service Years of all Participants	9	9	9	9	10	10	9

* Information for FY2013 and Earlier is not Available.

Notes to Schedule:

Benefit changes. None.

Changes of Assumptions. The valuation interest rate assumption changed From 7.45% to 7.40%

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF COUNTY CONTRIBUTIONS
(DOLLAR AMOUNTS IN THOUSANDS)
LAST 10 FISCAL YEARS
(SEE INDEPENDENT AUDITORS' REPORT)

	2020	2019	2018	2017	2016	2015	2014*
Actuarially Determined Contribution	\$ 31,105	\$ 27,720	\$ 26,337	\$ 24,729	\$ 21,636	\$ 22,530	\$ 20,822
Contributions in Relation to the Actuarially Determined Contribution	<u>31,105</u>	<u>27,720</u>	<u>26,337</u>	<u>24,729</u>	<u>21,636</u>	<u>22,530</u>	<u>20,822</u>
Contribution Deficiency (Excess)	<u><u>\$ -</u></u>						
Covered Payroll	\$ 87,668	\$ 83,746	\$ 81,037	\$ 80,814	\$ 72,121	\$ 70,406	\$ 67,169
Contributions as a Percentage of Covered Payroll	35.40%	33.10%	32.50%	30.60%	30.00%	32.00%	31.00%

* Information for FY2013 and Earlier is not Available.

Notes to Schedule

Valuation Date:

The actuarial valuation date is the beginning of the fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Projected Unit Credit (Entry Age Used for GASB 67 purposes)
Amortization Method	Level percent of pay increasing 2.75% per year
Remaining Amortization Period	Remaining amortization periods range from 3 to 15 years.
Asset Valuation Method	5-year smoothed market
Inflation	2.65%
Salary Increases	Varies by service, 4.25% to 7.75%, including inflation
Investment Rate of Return	7.40%, before expenses, including inflation
Retirement Age	Rates vary by participant age and service and (for GASB purposes only) set at 100% at DROP entry (or expected entry). Normal Cost (for GASB purposes) ceases for Police and Fire members when they enter DROP since GASB 67 does not allow Normal Cost while in DROP.
Mortality	RP-2014 Combined Healthy tables with generational projection from 2006 base year using scale MP-2017
Cost of Living Increases	2.00%

HOWARD COUNTY POLICE AND FIRE EMPLOYEES' RETIREMENT PLAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS
(SEE INDEPENDENT AUDITORS' REPORT)

<u>Fiscal Year Ending</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expenses</u>
6/30/2020	4.10 %
6/30/2019	7.50 %
6/30/2018	8.55 %
6/30/2017	12.18 %
6/30/2016	1.38 %
6/30/2015	2.95 %
6/30/2014	15.62 %
6/30/2013	11.33 %
6/30/2012	(1.21)%
6/30/2011	20.56 %