

MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

**MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
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FOR THE YEAR ENDING JUNE 30, 2017**

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INDEPENDENT AUDITORS' REPORT

To the Members and Board of Trustees
Maryland Association of Counties Pooled OPEB Trust

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland Association of Counties Pooled OPEB Trust (the Trust), which comprise the statement of net position, as of June 30, 2017, and the related statement of changes in net position for the year ending June 30, 2017, and the related notes to the financial statements.

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 audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Members and Board of Trustees
Maryland Association of Counties Pooled OPEB Trust

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maryland Association of Counties Pooled OPEB Trust as of June 30, 2017, and the results of its changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Maryland Association of Counties Pooled OPEB Trust's basic financial statements. The schedule of changes in net position by member is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2017, on our consideration of the Maryland Association of Counties Pooled OPEB Trust'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 to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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 Maryland Association of Counties Pooled OPEB Trust's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
September 7, 2017

MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

ASSETS

Cash and cash equivalents	\$ 2,446,464
Investments	<u>25,941,590</u>
Total Assets	<u>28,388,054</u>

LIABILITIES

Accrued expenses	<u>28,494</u>
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NET POSITION HELD IN TRUST FOR OPEB BENEFITS	<u><u>\$ 28,359,560</u></u>
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See accompanying Notes to Financial Statements.

**MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDING JUNE 30, 2017**

ADDITIONS

Contributions	\$ 5,351,729
Investment earnings:	
Interest	556,523
Net increase in the fair value of investments	<u>1,674,946</u>
Total investment income	2,231,469
Less investment expenses	<u>15,424</u>
Net investment income	<u>2,216,045</u>
Total additions	<u>7,567,774</u>

DEDUCTIONS

Actuarial expenses	2,800
Management fees	105,993
Legal expenses	<u>17,389</u>
Total deductions	<u>126,182</u>

CHANGE IN NET POSITION

	<u>7,441,592</u>
Net Position Held in Trust for OPEB Benefits, beginning of year	<u>20,917,968</u>
Net Position Held in Trust for OPEB Benefits, end of year	<u>\$ 28,359,560</u>

See accompanying Notes to Financial Statements.

MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 ORGANIZATION

The Maryland Association of Counties Pooled OPEB Trust (the Trust) is administered by Davenport & Company LLC, and is a wholly-owned instrumentality of its members. The following nine members who are the sole contributors to the Trust consist of the following: Allegany, St. Mary's, Queen Anne's and Talbot County's, City of Annapolis, College of Southern Maryland, Town of Bel Air, Talbot County Board of Education and St. Mary's County Metropolitan Commission.

The Trust was established on January 27, 2015 under the direction of the Maryland Association of Counties (MACo), and is open to any members who shall submit evidence satisfactory to the Trustees that the Member is authorized to participate in the Trust Fund.

The Trust was formed to facilitate the investments of Other Postemployment Benefits (OPEB) trusts formed by the members to provide post-retirement benefits to their respective retirees. The Trust accomplishes this through a carefully planned and executed investment program that aims to achieve a reasonable long term total return consistent with the level of risk assumed. The Trust attempts to maintain sufficient liquidity levels in order to meet near term obligations and fund current operations.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Reporting

The Trust's financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Specifically, the Trust is subject to accounting standards for governmental external investment pools established by the Governmental Accounting Standards Board (GASB), which requires the use of the flow of economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include an investment in a money market mutual fund. At June 30, 2017, the weighted average maturity (WAM) for the Trust's money market mutual fund investment was 34 days. At June 30, 2017, the short-term rating of the money market mutual fund was AAAM by Standard & Poor's.

MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Valuation

The Trust's investment policy main objectives are the protection of investment principal, maximizing investment income through diversification while assuring financial liquidity. The policy allows for investment in U.S. and Non-U.S. equities, corporate, government, or government agency bonds, non U.S. bonds, Real Estate and Limited Partnerships.

The Trust categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below

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

Transactions are recorded on the trade date. Realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis. Following is a description of the valuation methodologies used for assets measured at fair value.

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Trust has the following recurring fair value measurements as of June 30, 2017:

MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Valuation (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>June 30, 2017</u>
Investments by fair value level:				
Debt Securities				
U.S. Treasury Obligations	\$ -	\$ 2,673,538	\$ -	\$ 2,673,538
U.S. Governmental Agencies	-	187,444	-	187,444
Corporate & Foreign bonds	-	4,236,920	-	4,236,920
Municipal Obligations	-	476,781	-	476,781
Equity and Mutual Fund Investments				
Taxable Fixed Income Funds		1,081,346	-	1,081,346
Domestic Equity Mutual Funds	12,191,732	-	-	12,191,732
Global Funds	1,611,002	-	-	1,611,002
International funds	3,482,827	-	-	3,482,827
Total	<u>\$ 17,285,561</u>	<u>\$ 8,656,029</u>	<u>\$ -</u>	<u>\$ 25,941,590</u>

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Trust's investment policy states that the duration of the portfolio should be within 6 months of the Barclays Capital Aggregate Bond Index. The Trusts' weighted average years to maturity as of June 30, 2017 was 2.4 years.

Information about the sensitivity of the fair values of the Trust's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Trust's investments by maturity as of June 30, 2017:

	<u>Investment Maturities (in Years)</u>				<u>Total</u>
	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>	
Investments with maturities					
U.S. Treasury Obligations	\$ -	\$ 1,539,906	\$ 711,734	\$ 421,898	\$ 2,673,538
U.S. Governmental Agencies	-	155,338	-	32,106	187,444
Corporate & Foreign bonds	499,878	1,775,911	1,137,584	823,547	4,236,920
Municipal Obligations	-	395,385	81,396	-	476,781
Total	<u>\$ 499,878</u>	<u>\$ 3,866,540</u>	<u>\$ 1,930,714</u>	<u>\$ 1,277,551</u>	<u>\$ 7,574,683</u>

Credit Risk. The Trust is exposed to both market risk, the risk arising from changes in fair value, and credit risk, the risk of failure by another party to perform according to the terms of a contract. The Trust bears the risk of loss only to the extent of the fair value of its respective investments. At June 30, 2017 the ratings of the underlying investments of the Trust's investments were as follows:

MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Valuation (Continued)

Type	Rating						Total
	Aa1/Aa2/			Baa1/Baa2/B			
	Aaa	Aa3	A1/A2/A3	aa3	Ba1	Not Rated	
U.S. Treasury Obligations	\$ 2,673,538	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,673,538
U.S. Governmental Agencies	-	-	-	-	-	187,444	187,444
Corporate & Foreign bonds	840,672	900,618	1,593,918	772,087	71,689	57,936	4,236,920
Municipal Obligations	101,017	375,764	-	-	-	-	476,781
	<u>\$ 3,615,227</u>	<u>\$ 1,276,382</u>	<u>\$ 1,593,918</u>	<u>\$ 772,087</u>	<u>\$ 71,689</u>	<u>\$ 245,380</u>	<u>\$ 7,574,683</u>

The *custodial credit risk* for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Trust will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Trust's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

The Trust has all of its assets on deposit with Wilmington Trust Company in connection with its investing and cash management activities. In the event of a financial institution's insolvency, recovery of Trust assets on deposit may be limited to account insurance or other protection afforded such deposits.

The following summarizes custodial credit risk related to investments held by the custodian as of June 30, 2017, which are uninsured and unregistered:

	Fair Value
	<u>June 30, 2017</u>
U.S. Treasury Obligations	\$ 2,673,538
U.S. Governmental Agencies	187,444
Corporate & Foreign bonds	4,236,920
Municipal Obligations	476,781
Total	<u>\$ 7,574,683</u>

MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Valuation (Continued)

Concentration of credit risk. The following general asset allocation guidelines have been established through the Trust's investment policy.

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>
Equities	50%	70%	65%
Fixed Income	30%	50%	35%
Cash and Equivalents	0%	10%	0%

The Trust held the following investments as of June 30, 2017 that exceeded 5% of the total investment balance as of June 30, 2017:

<u>Name</u>	<u>Amount</u>
DFA US Small-Cap Value Fund	\$ 1,725,587
Lazard International Strategic Equity Funds	1,741,959
Transamerica TS&W International Equity Fund	1,740,867
Vanguard 500 Index Fund	7,565,355
Vanguard Mid-Cap Index Fund -Admiral Shares	1,855,092
New World Fund	1,611,002

Foreign currency risk is the risk that changes in the exchange rate of investments will adversely affect the fair value of an investment. The Trust was not exposed to Foreign Currency risk as of June 30, 2017 as the Trust did not have any investments denominated in foreign currencies.

Capital Accounts

The Trust accounts for contributions, allocations and redemptions on a per member capital account basis. The revenues, consulting and management fees, and administrative service fee are allocated pro rata to the capital accounts of each member based on committed capital.

Income Taxes

The Trust complies with the requirements of Section 115 of the Internal Revenue Code and is exempt from income taxes.

NOTE 3 ADMINISTRATOR

Pursuant to the Administrator Service Agreement between Davenport and Company, LLC and the Trust, Davenport and Company, LLC serves as the administrator of the Trust and is responsible for managing Trust operations. Davenport and Company, LLC receives an administrative service fee billed quarterly in arrears based on the aggregate market value of assets in the Trust on the last day of the preceding fiscal quarter. The chart below details the fee structure for administrator fees.

MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 ADMINISTRATOR (CONTINUED)

Aggregate Asset in Trust	Fee Expressed in Basis Points
Up to \$75 million (M)	10
\$75M to \$150M	8
\$150M to \$300M	7
\$300M to \$400M	6
Over \$400M	5

The administrator will receive 100% of setup fees to cover time and expenses entailed in setup of new members in the Trust until the earlier of the date on which assets in the Trust reach the aggregate amount of \$100 million or the Administrator startup expenses have been reimbursed in full. For purposes of calculating the setup fee, a member's initial investment shall include all deposits made to the Trust during the member's initial 12 months of membership. The chart below details out the fee schedule for setup fees.

Amount of Initial Investment	Fee Amount
Up to \$500,000	\$ 500
\$500,000 to \$2M	2,500
\$2m to \$10M	5,000
Over \$10M	6,000

Total fees paid to the Administrator for the year ended June 30, 2017 amounted to \$25,138.

NOTE 4 CONSULTING AND INVESTMENT SERVICES

GYL Financial Synergies, (GYL) LLC provides consulting services to the Trust. Pursuant to an agreement with the Trust, effective August 1, 2016, GYL receives a consulting fee of 0.23% annually of the value of the Trust's assets in custody at Wilmington Trust Company at the beginning of each quarter billed in arrears.

NOTE 5 CONTRIBUTIONS, DISTRIBUTIONS AND REDEMPTIONS

Membership in the Trust is subject to approval by the Trustees and the provisions of the Trust Agreement. A member may terminate its membership in the Trust and withdraw its allocated investment balance by providing written notification to the Trustees six months prior to the intended date of withdrawal.

**MARYLAND ASSOCIATION OF COUNTIES POOLED OPEB TRUST
SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION BY MEMBER
FOR THE YEAR ENDING JUNE 30, 2017**

	Allegany County	City of Annapolis	College of Southern Maryland	Queen Anne's County	St. Mary's County Metropolitan Commission	St. Mary's County	Talbot County Board of Education	Talbot County	Town of Bel Air	Total
ADDITIONS										
Contributions	\$ -	\$ 1,282,051	\$ 729,322	\$ 2,932,447	\$ 374,909	\$ -	\$ -	\$ -	\$ 33,000	\$ 5,351,729
Investment earnings:										
Interest	51,656	43,698	57,238	20,837	86,591	25,794	2,143	256,145	6,466	550,568
Net increase in the fair value of investments	159,647	133,442	172,642	56,314	265,024	79,717	5,955	788,692	19,468	1,680,901
Total investment gain	211,303	177,140	229,880	77,151	351,615	105,511	8,098	1,044,837	25,934	2,231,469
Less investment expenses	1,562	1,341	1,618	1,049	2,301	666	65	6,645	177	15,424
Net investment gain	209,741	175,799	228,262	76,102	349,314	104,845	8,033	1,038,192	25,757	2,216,045
Total additions	209,741	1,457,850	957,584	3,008,549	724,223	104,845	8,033	1,038,192	58,757	7,567,774
DEDUCTIONS										
Actuarial expenses	270	196	284	67	455	135	13	1,345	35	2,800
Management fees	9,256	9,021	11,216	6,477	16,298	4,736	460	47,270	1,259	105,993
Legal expenses	1,653	1,263	1,778	541	2,797	825	80	8,236	216	17,389
Total deductions	11,179	10,480	13,278	7,085	19,550	5,696	553	56,851	1,510	126,182
CHANGE IN MEMBER ENTITIES BALANCE	198,562	1,447,370	944,306	3,001,464	704,673	99,149	7,480	981,341	57,247	7,441,592
Member Entities Balance at June 30, 2016	2,013,963	1,460,573	2,128,669	503,218	3,398,939	1,005,720	99,501	10,044,685	262,700	20,917,968
Member Entities Balance at June 30, 2017	<u>\$ 2,212,525</u>	<u>\$ 2,907,943</u>	<u>\$ 3,072,975</u>	<u>\$ 3,504,682</u>	<u>\$ 4,103,612</u>	<u>\$ 1,104,869</u>	<u>\$ 106,981</u>	<u>\$ 11,026,026</u>	<u>\$ 319,947</u>	<u>\$ 28,359,560</u>