



**THE CECIL COUNTY, MARYLAND NON-PENSION POST  
EMPLOYMENT BENEFITS TRUST**

**ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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

Prepared by the Cecil County Department of Finance

# THE CECIL COUNTY, MARYLAND NON-PENSION POST EMPLOYMENT BENEFITS TRUST

## ANNUAL FINANCIAL REPORT OF A FIDUCIARY FUND OF CECIL COUNTY, MARYLAND FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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**THE CECIL COUNTY, MARYLAND NON-PENSION POST  
EMPLOYMENT BENEFITS TRUST  
BOARD OF TRUSTEES  
200 Chesapeake Blvd.  
Elkton, MD 21921  
410-996-5385**

November 16, 2020

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

We are pleased to present this Annual Financial Report of The Cecil County, Maryland Non-Pension Post Employment Benefits Trust (the Trust) for the fiscal year ended June 30, 2020. The Trust is a non-pension post-retirement plan and a fiduciary fund of Cecil County. This report is divided into two sections: an Introductory Section including the administrative organization and the letter of transmittal; and a Financial Section including the report of the independent public accountants, management's discussion and analysis, the financial statements of the Trust, and certain required and other supplementary information.

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

The Trust's financial statements have been audited by SB & Company, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Trust as of and for the fiscal year ended June 30, 2020, is free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and any significant estimates made by management; and evaluating the overall financial statement presentation. The independent public accountants issued an unmodified opinion on the Trust's financial statements as of and for the fiscal year ended June 30, 2020 which means that the financial statements are fairly presented in conformity with GAAP. The independent public accountant's report is presented as the first component of the Financial Section of this report. Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and

## **Transmittal Letter, June 30, 2020 The Cecil County MD, Non-Pension Post Employment Benefits Trust**

should be read in conjunction with it. The Trust's MD&A can be found immediately following the report of the independent public accountants.

### **Profile of the Plan**

The Trust was established effective June 17, 2008, under a trust agreement enacted by the Board of County Commissioners of Cecil County (BOCC) to provide funding for post-retirement non-pension benefits (related to health insurance) for certain employees of the County, Cecil College and the Cecil County Public Library. Responsibility for the administration and operation of the Trust is vested in a 3-member Board of Trustees (the Trustees) appointed by the County Executive and confirmed by the County Council. The Trust was created by the BOCC to comply with the Governmental Accounting Standards Board (GASB) Statements No. 74 and No. 75, which require recognition of the long-term liability created by non-pension post-retirement benefits provided to many governmental employees.

### **Funding**

A non-pension post employment benefits plan is well funded when its net position is equal to or greater than the liability. The Trust's funding objective is to meet long-term benefit promises through actuarially determined contributions to and investment earnings from the Trust. The OPEB liability and the Net Position of the Trust as of June 30, 2020 the most recent actuarial valuation, amounted to \$4,018,217 and \$7,221,683 respectively, or 179.72% funded. The plan was changed January 1, 2020 to add a health reimbursement plan (HRA). The County provides a fixed dollar benefit based on their years of service.

### **Additions and Deductions from Plan Net Position**

The County Executive funded \$234,000 to the OPEB Fund. The \$234,000 included \$101,967 in current year benefits and \$132,033 paid to the Trust for investment for future benefits. Net investment earnings of \$146,064 and \$51,010 of a decrease in market value resulted in net investment gain of \$95,054 for fiscal year 2020.

The Trust paid \$77,550 in subsidies for retirees' health care premiums, \$24,417 to the health insurance plan for HRA contributions, \$1,608 for third-party administrative services, \$4,370 for auditing services and \$9,335 for actuarial services resulting in total deductions of \$117,280 from the Trust.

Net position of the Trust increased by \$211,774 and totaled \$7,221,683 as of June 30, 2020.

### **Investments**

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

The Trustees have established an investment policy that allows for the delegation of investment authority to professional investment advisors. The Investment Policy Statement outlines the responsibility for the investment of the fund and the degree of risk deemed appropriate for the fund.

Investment advisors are to execute the investment policy in accordance with the Trust documents, the Trustees' policy and established guidelines, but can use full discretion within the policy and guidelines.

### **Professional Services**

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the Trust. An opinion from the independent public accountants is included in this report. The Trust also utilized a professional actuary to calculate its non-pension post employment obligation. The consultants appointed by the Board of Trustees are listed on page iv.

### **Major Initiatives**

**Current Year.** The Trust finished the year with an increase in net position of 3.0%. This increase is due to the funding by the County exceeding the benefits paid. As of June 30, 2020, the OPEB Trust's net position as a percentage of the total OPEB liability is 179.72%. The Fund met its current obligations to provide post-employment benefits to retirees.

**Long Term.** The Board of Trustees will continue to monitor credit and duration exposures in the portfolio over the coming months. Specifically, the Trustees will keep abreast of market volatility, given the current expectation of the potential for the Federal Reserve to lower short-term interest rates.

### **Acknowledgements**

The operation of the Trust was made possible by the efforts of the County Executive, County Council, and the Trustees of the Trust, as well as the Human Resources staff and members of the Department of Finance. Preparation of the Annual Financial Report, on a timely basis was made possible by the dedicated service of the Department of Finance staff.

In closing, the Trustees look forward to serving the members of The Cecil County Maryland, Non-Pension Post Employment Benefits Trust by providing benefits in their retirement.

Respectfully Submitted,



Rebecca L. Anderson  
Trustee

**THE CECIL COUNTY, MARYLAND NON-PENSION POST  
EMPLOYMENT BENEFITS TRUST**

**Principal Officials & Consultants**

**June 30, 2020**

**Appointed Officials**

Board of Trustees

Trustee  
Trustee  
Trustee

Lisa A. Saxton, Chairperson  
Rebecca L. Anderson  
Sally E. Kilby

**Consultants**

Actuary  
Administrator  
Independent Public Accountant

Bolton Partners, Inc.  
Flexible Benefit Administrators  
SB & Company, LLC

## FINANCIAL SECTION



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

## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

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

### **Report on the Financial Statements**

We have audited the accompanying basic financial statements of the Cecil County, Maryland Non-Pension Post Employment Benefits Trust (the Trust), a fiduciary fund of Cecil County, Maryland, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The Trust's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the basic 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 controls. 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 basic financial statements.

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

### ***Opinion***

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the required supplementary schedule of changes in County's net OPEB liability/(asset) and related ratios, schedule of County contributions, and schedule of investment returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

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

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

Owings Mills, Maryland  
November 16, 2020

*SB & Company, LLC*

# THE CECIL COUNTY, MARYLAND NON-PENSION POST EMPLOYMENT BENEFITS TRUST

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### For the Fiscal Year Ended June 30, 2020

The Trustees of the Cecil County, Maryland Non-Pension Post Employment Benefits Trust (the Trust) are pleased to present to the County Executive, the County Council and other readers of the financial statements of the Trust this narrative overview and analysis of the financial activities of the Trust for the fiscal year ended June 30, 2020.

#### **Financial Highlights**

The assets of the Trust exceeded its liabilities at the close of the fiscal year by \$7,221,683 (net position). The Trust's total contributions decreased from \$254,947 in 2019 to \$234,000 in 2020. The net investment income decreased from \$325,839 in 2019 to \$95,054 in 2020. The entire amount of net position is available to assist the County in financing non-pension post-retirement benefits provided by the County under the Cecil County Non-Pension Post Retirement Benefit Plan.

#### **Overview of the Financial Statements**

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

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

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

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

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

**Required Supplementary Information.** The required supplementary information and related notes provide additional information that is essential to a full understanding of the funding progress of the non-pension post employment benefits trust. The information can be found beginning on page 14 of this report.

**Additional information.** Other supplementary information is shown on page 17.

## The Cecil County, Maryland Non-Pension Post Employment Benefits Trust Management's Discussion and Analysis, June 30, 2020

### Financial Analysis of the Trust

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

	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>	<u>Increase</u> <u>(Decrease)</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u> <u>Percentage</u>
<b><u>Assets</u></b>				
Cash and Cash Equivalents	\$ 159,597	\$ 262,528	\$ (102,931)	-39.2%
A/R Other	-	-	-	NM
Investments, at Fair Value	<u>7,069,080</u>	<u>6,754,036</u>	<u>315,044</u>	4.7%
Total Assets	<u>7,228,677</u>	<u>7,016,564</u>	<u>212,113</u>	3.0%
<b><u>Liabilities</u></b>				
Accounts Payable	127	278	(151)	-54.3%
Accrued Expenses	<u>6,867</u>	<u>6,377</u>	<u>490</u>	7.7%
Total Liabilities	<u>6,994</u>	<u>6,655</u>	<u>339</u>	5.1%
<b><u>Net Position</u></b>				
Held in Trust for Participants	<u><u>\$ 7,221,683</u></u>	<u><u>\$ 7,009,909</u></u>	<u><u>\$ 211,774</u></u>	3.0%

The Trust was established to fund future post employment non-pension benefits and consequently its assets consist of investments in a diversified mix of mutual funds. The liabilities of the Trust consist of short-term obligations related to administration of the fund.

**Changes in Net Position.** The Trust experienced an increase in net position of \$211,774 in fiscal year 2020. Total contributions decreased \$20,947 or 8.2%. Net investment income decreased by \$230,785. Benefit payments decreased by \$132,633 and Administrative expenses decreased by \$8,928 or 36.8%.

A year-to-year comparison of changes of the Trust's net position is as follows.

	<u>2020</u>	<u>2019</u>	<u>Increase</u> <u>(Decrease)</u> <u>Amount</u>	<u>Increase</u> <u>(Decrease)</u> <u>Percentage</u>
<b><u>Additions</u></b>				
Contributions	\$ 234,000	\$ 254,947	\$ (20,947)	-8.2%
Net Investment Income (Loss)	<u>95,054</u>	<u>325,839</u>	<u>(230,785)</u>	-70.8%
Total Additions	<u>329,054</u>	<u>580,786</u>	<u>(251,732)</u>	-43.3%
<b><u>Deductions</u></b>				
Benefit Payments	101,967	234,600	(132,633)	-56.5%
Administrative Expenses	<u>15,313</u>	<u>24,241</u>	<u>(8,928)</u>	-36.8%
Total Deductions	<u>117,280</u>	<u>258,841</u>	<u>(141,561)</u>	-54.7%
Changes in Net Position	<u><u>\$ 211,774</u></u>	<u><u>\$ 321,945</u></u>	<u><u>\$ (110,171)</u></u>	-34.2%

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust  
Management's Discussion and Analysis, June 30, 2020**

**Requests for Information**

This financial report is designed to provide a general overview of the Trust's finances to the citizens of Cecil County, and other users of such data. Requests for additional copies of this report, an actuarial report, a list of investments, questions concerning any of the information in this report, and requests for additional financial information should be addressed to Lisa A. Saxton, Cecil County Director of Finance, 200 Chesapeake Blvd, Suite 1100, Elkton, Maryland 21921.

## BASIC FINANCIAL STATEMENTS

**THE CECIL COUNTY, MARYLAND NON-PENSION POST  
EMPLOYMENT BENEFITS TRUST**

**STATEMENT OF NET POSITION**

**AS OF JUNE 30, 2020**

**ASSETS**

Cash and Cash Equivalents	\$ 159,597
Investments, at Fair Value Mutual Funds	<u>7,069,080</u>
<b>Total Assets</b>	<u><u>7,228,677</u></u>

**LIABILITIES**

Accounts Payable	127
Accrued Expenses	<u>6,867</u>
<b>Total Liabilities</b>	<u><u>6,994</u></u>

**NET POSITION**

Held in Trust for Participants	<u><u>\$ 7,221,683</u></u>
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The accompanying notes to the financial statements are an integral part of this statement.

**THE CECIL COUNTY, MARYLAND NON-PENSION POST  
EMPLOYMENT BENEFITS TRUST**

**STATEMENT OF CHANGE IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2020**

**ADDITIONS**

Contributions	
Cecil County	<u>\$ 234,000</u>

**INVESTMENT INCOME**

Net Depreciation	
in Fair Value of Investments	(51,010)
Interest and Dividends	<u>171,815</u>

Investment Income (Loss)	120,805
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Less: Investment Expense	<u>(25,751)</u>
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Net Investment Income (Loss)	<u>95,054</u>
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Total Additions	<u>329,054</u>
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**DEDUCTIONS**

Benefit Payments	101,967
Administrative Expense	<u>15,313</u>

Total Deductions	<u>117,280</u>
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<b>Change in Net Position</b>	211,774
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**Held in Trust  
for Participants**

Net Position - Beginning	<u>7,009,909</u>
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Net Position - Ending	<u>\$ 7,221,683</u>
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The accompanying notes to the financial statements are an integral part of this statement.

# **The Cecil County, Maryland Non-Pension Post Employment Benefits Trust**

## **Notes to the Financial Statements for the Fiscal Year Ended June 30, 2020**

### **1. Summary of Significant Accounting Policies**

The financial statements of the Cecil County, Maryland Non-Pension Post Employment Benefits Trust (the Trust) have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. During the year ending June 30, 2020, the Trust has adopted all GASB Statements through No. 88, entitled Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. This statement did not have an effect on the Trust's financial statements.

The following summarizes the Trust's significant accounting policies:

#### **Financial Reporting Entity**

The Cecil County Post Retirement Benefit Plan (the "Plan") is a single employer defined benefit plan administered by the County. The Plan provides medical, prescription drug, dental and vision to all eligible retired employees of the County, Cecil County Public Library and Cecil College. The retiree must meet the eligibility requirements in order to participate in the "Plan." It is the County Executive and County Council's intent to fully fund the ADC each year. Funding of the ADC consists of three components: cash payments made directly to the health insurance plan on behalf of the retirees (\$75 to \$150 per month based on length of service); payment of the "hidden subsidy" (Retirees pay the same rate as active employees; the difference between the insurance rate for active employees versus the rate that should have been charged to retirees is the hidden subsidy); with the remainder paid directly to the Trust. Depending on the employee's years of service, the County contributes \$75 to \$150 per month per participant to the Plan, and the participant is required to pay the balance of the Plan's insurance premiums, as well as any annual deductibles. Effective January 1, 2020, the plan was changed to provide a health reimbursement plan (HRA) for participants. The county provides a fixed dollar benefit for retirees based on their years of service. As of December 1, 2018 the date of the last actuarial valuation, approximately 66 retirees and their beneficiaries were receiving benefits, and an estimated 706 active employees are potentially eligible to receive future benefits.

The Cecil County, Maryland Non-Pension Post Employment Benefits Trust (the Trust) was established effective June 17, 2008, under a trust agreement enacted by the Board of County Commissioners of Cecil County (BOCC) to assist the County in financing non-pension post-retirement benefits (OPEB) provided by the County under the Cecil County Post Retirement Benefit Plan.

Although the Trust is a legally separate entity, the responsibility for the administration and operation of the Trust is vested in a 3-member Board of Trustees (the Trustees) appointed by the County Executive and confirmed by the County Council and make all employer contributions to the Trust. The Trust is a fiduciary fund of Cecil County, MD, because it provides services and benefits exclusively to the County.

Cecil County issues a publicly available financial report that includes financial statements and required supplementary information for the Trust. The financial report may be obtained from the Cecil County Department of Finance, 200 Chesapeake Blvd., Elkton, Maryland 21921, by calling 410-996-5385 or on line at <http://www.ccgov.org/government/finance/financial-reports>.

# **The Cecil County, Maryland Non-Pension Post Employment Benefits Trust**

## **Notes to the Financial Statements for the Fiscal Year Ended June 30, 2020**

### Basis of Accounting

The Trust's financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer's policy is to fund these obligations in the year they occur. Employer contributions to the Trust are irrevocable.

### Investments

The Trust is authorized by its trust agreement to establish an investment policy and invest long-term to assist the County in financing post-retirement healthcare costs under the Plan. The investment policy allocates investments between 1) large, mid and small capitalization mutual funds, and international stock blend mutual funds traded on national exchanges; 2) fixed income domestic mutual funds traded on national exchanges; and 3) cash equivalents (deposits or short-term investments maturing within a year). Certain investments are prohibited. Specific allocation targets are reviewed annually and are shown on page 10. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The Trust does not hold any investments that are not traded on a national or international exchange.

### Rate of Return

For the year ended June 30, 2020, the annual money-weighted rate of return on OPEB investments, net of OPEB investment expense, was 1.36%.

### Fair Value Measurements

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

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

## **2. Contributions**

Funding Policy: The County's Actuarially Determined Contribution (ADC) is an actuarially determined amount that, if paid on an ongoing basis, is projected to cover normal cost each year and provide funding for future retirees' benefits. It is the County Executive and County Council's intent to fully fund the ADC each year. Funding of the ADC consists of three components: cash payments made directly to the health insurance plan on behalf of the retirees (\$75 to \$150 per month based on length of service); payment of the "hidden subsidy" (Retirees pay the same rate as active employees; the difference between the insurance rate for active employees versus the rate that should have been charged to retirees is the hidden subsidy); with the remainder paid directly to the Trust.

## **3. Net OPEB Liability of the County**

The County's net OPEB liability was measured as of June 30, 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust  
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2020**

Actuarial Assumptions: The total OPEB liability was determined by an actuarial valuation as of December 1, 2018 rolled forward to June 30, 2020 using the following actuarial assumptions, applied to all periods included in the measurement:

Asset valuation method	Market Value of Assets
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll
Amortization period	20 years (as of July 1, 2020)
Inflation	2.40%
Projected salary increase	2.50% per year
Discount rate	7.0%, net of investment expenses
Healthcare cost trend rate	SOA Long-Run Medical Cost Trend Model baseline assumptions. The SOA model was released in October 2010 and updated in October 2018 (1.5% GDP) adjusted for the effects of the Cadillac Tax set to take effect in 2022
Employees Included	25% of active employees enrolled in health care 5% of terminated employees currently enrolled in Health care
Marital Status and Age of Spouse	Actual coverage election

The actuarial assumptions used in the June 30, 2020 valuation are based on a weighted average of the projected claims with retiree claims for each fiscal year weighted 10% each (a total of 30 percent), and age adjusted active and pre-Medicare claims for the 2015-2016 period and the 2016-2017 period weighted 35% each (a total of 70 percent). For the employee claims data, the resulting average claims were age adjusted.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual determined contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The long-term expected rate of return of OPEB investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of OPEB investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation (2.40%). The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	49%	7.50%
International equity	15%	8.61%
Fixed income	35%	3.86%
Cash	1%	1.06%

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust**  
**Notes to the Financial Statements for the Fiscal Year Ended June 30, 2020**

Discount rate. The discount rate used to measure the total OPEB liability was 7.0 percent. The included calculations assume that the members and the County will continue to make the current contribution levels. Based on that assumption, the plan's fiduciary net position is expected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB investments was applied to all periods of the projected benefit payments to determine the total OPEB liability.

**Changes in the Net OPEB Liability/(Asset)**

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (a) - (b)
<b>Balances at 6/30/19</b>	\$ 6,250,580	\$ 7,009,909	\$ (759,329)
<b>Changes for the year:</b>			
Service Cost	270,453	-	270,453
Interest	428,961	-	428,961
Changes of Benefit Terms	(2,338,642)	-	(2,338,642)
Experience Losses (Gains)	(143,180)	-	(143,180)
Trust Contribution - Employer	-	234,000	(234,000)
Net Investment Income	-	95,054	(95,054)
Changes in Assumptions	(347,987)	-	(347,987)
Benefit Payments	(101,967)	(101,967)	-
Administrative Expense	-	(15,313)	15,313
<b>Net Changes</b>	<u>(2,232,362)</u>	<u>211,774</u>	<u>(2,444,136)</u>
<b>Balances at 6/30/20</b>	<u>\$ 4,018,218</u>	<u>\$ 7,221,683</u>	<u>\$ (3,203,465)</u>
<i>Funded Status</i>		<i>179.72%</i>	

Sensitivity of Net OPEB liability to changes in the discount rate and the trend rate.

The following table presents the County's Net OPEB liability using the discount rate of 7.0 percent, as well as what it would be using a discount rate that is 1 percentage point lower or 1 percentage point higher.

	1% decrease 6.00%	Discount rate 7.00%	1% increase 8.00%
Net OPEB Liability (Asset)	<u>\$(2,647,980)</u>	<u>(\$3,203,465)</u>	<u>(\$3,666,734)</u>

The following table presents the County's Net OPEB liability using the health care cost trend rate, as well as what it would be using a trend rate that is 1 percentage point lower or 1 percentage point higher.

	1% decrease 2.90%	Medical rate 3.90%	1% increase 5.00%
Net OPEB Liability (Asset)	<u>(\$3,287,664)</u>	<u>(\$3,203,465)</u>	<u>(\$3,106,350)</u>

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust**  
**Notes to the Financial Statements for the Fiscal Year Ended June 30, 2020**

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

Investment policy information is further discussed in Note 1. As of June 30, 2020, the Trust had the following deposits and investments. Insured deposits and money market mutual funds are classified as cash and cash equivalents on the Statement of Net Position.

**Investments**

MLGIP	\$274,440
Money Market Mutual Funds	159,597
Mutual Funds	<u>6,794,640</u>
<b>Total Investments</b>	<b><u><u>\$7,228,677</u></u></b>

**List of Mutual Funds the Trust was invested in as of June 30, 2020:**

Blackrock High Yield	\$ 139,755	IsharesTr Russell 2000 Grow th(IWO)	417,257
Blackrock Low Duration	342,392	IsharesTr Russell 2000 Index (IWM)	368,545
iShares Tips Bond	221,769	Vanguard Small Cap Value (VBR)	<u>356,899</u>
Dodge & Cox Income Fund	773,320	Total Small Capitalization	1,142,701
iShares JP Morgan USD Emerging	118,831		
Vanguard Total Bond Index Fund	<u>774,321</u>	iShares MSCI EAFE ETF (EFA)	355,237
Total Fixed Income	2,370,389	Dodge & Cox Intl (DODFX)	164,864
		iShares MSCI EAFE Grow th (EFG)	<u>198,134</u>
T Rowe Price Grow th Stock	295,096	Total International	718,236
Invesco QQQ Trust (QQQ)	233,487		
Fidelity 500 Index FD-A	502,748	Seafarer Overseas Grow th	99,558
Vanguard Value ETF	<u>376,151</u>	Touchstone Sands EMGR- Inst	<u>104,321</u>
Total Large Capitalization	1,407,482	Total Emerging Markets	203,878
		Total Investments	<b><u><u>\$ 6,794,640</u></u></b>
Vanguard MidCap (VO)	152,928		
Vanguard MidCap Grow th (VOT)	379,189		
Principal Mid Cap Fund (PMAQX)	<u>419,837</u>		
Total Mid Capitalization	951,954		

The summary below identifies the fair market value level of the investments as of June 30, 2020

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust**  
**Notes to the Financial Statements for the Fiscal Year Ended June 30, 2020**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30
<b><u>Investments by Fair Value Level:</u></b>				
Fixed Income Funds	\$ 2,370,389	\$ -	\$ -	\$ 2,370,389
Equity Mutual Funds	4,424,251	-	-	4,424,251
<b>Total Investments at Fair Value</b>	<b>6,794,640</b>	<b>-</b>	<b>-</b>	<b>6,794,640</b>
<b><u>Investments carried at Amortized Cost:</u></b>				
MLGIP	-	-	-	274,440
<b>Total investments at Amortized Cost</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>274,440</b>
<b>Total investments</b>	<b>\$ 6,794,640</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,069,080</b>

Fair Market Value Levels Debt securities (Fixed Income funds) classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities Equity Mutual funds listed on a national market or exchange are valued at the last sales price, or, if there is no sale and the market is still considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy.

Credit Risk. No rating was available for the Money Market Mutual Fund. The Trust held 21 separate Bond/Stock funds as of June 30, 2020 of which 7 had a Morningstar rating of 5 stars (the best rating is 5 stars). Seven of the funds had a Morningstar rating of 4, and the remaining seven funds had a Morningstar rating of 3.

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

Concentration of Credit Risk. The Trust's investment policy applies the "prudent person" rule to its investments as a whole and its Investment Consultants and/or Investment Managers: "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income derived". The investment policy requires that no more than 5% of any class of investments shall be in one corporation or affiliated group. Further, the policy requires that no more than 20% of any class of investments shall be in any one industry; investments in U.S. Treasury and U.S. Agency obligations are not limited.

## **5. Reports Available**

Additional copies of this annual financial statement and actuarial information are available from the Cecil County Department of Finance, 200 Chesapeake Blvd., Elkton, Maryland 21921 or [www.ccgov.org/government/finance/financial-reports](http://www.ccgov.org/government/finance/financial-reports).

REQUIRED SUPPLEMENTARY  
INFORMATION  
&  
OTHER SUPPLEMENTARY  
INFORMATION

**THE CECIL COUNTY, MARYLAND NON-PENSION  
POST EMPLOYMENT BENEFIT TRUST  
SCHEDULE OF CHANGES IN THE COUNTY'S  
NET OPEB LIABILITY/(ASSET) AND RELATED RATIOS**  
(dollar amounts in thousands)

	2020	2019	2018	2017
<b>Total OPEB Liability</b>				
Service cost	\$ 270	\$ 315	\$ 331	\$ 309
Interest	429	430	437	415
Changes of benefit terms	(2,339)			
Differences between expected and actual experience	(143)	(145)	(589)	-
Changes of assumptions	(348)	(379)	-	-
Benefit payments, including refunds of member contributions	(102)	(235)	(301)	(534)
Net change in total OPEB liability	(2,232)	(14)	(123)	190
Total OPEB liability - beginning	6,251	6,265	6,388	6,198
Total OPEB liability - ending (a)	<u>\$ 4,018</u>	<u>\$ 6,251</u>	<u>\$ 6,265</u>	<u>\$ 6,388</u>
Plan fiduciary net position				
Contributions - employer	\$ 234	\$ 255	\$ 322	\$ 948
Net investment income	95	326	467	651
Benefit payments	(102)	(235)	(301)	(534)
Administrative expense	(15)	(24)	(32)	(20)
Net change in fiduciary net position	\$ 212	\$ 322	\$ 456	\$ 1,045
Fiduciary net position - beginning	7,010	6,688	6,232	5,187
Fiduciary net position - ending (b)	<u>\$ 7,222</u>	<u>\$ 7,010</u>	<u>\$ 6,688</u>	<u>\$ 6,232</u>
County's net OPEB liability/(asset) - ending (a)-(b)	<u>\$ (3,203)</u>	<u>\$ (759)</u>	<u>\$ (423)</u>	<u>\$ 156</u>
Fiduciary net position as a percentage of the total OPEB liability	179.72%	112.15%	106.76%	97.56%

Covered employee payroll <sup>1</sup>

County's net OPEB liability as a percentage of covered-employee payroll <sup>1</sup>

Expected average remaining service years of all participants	10	10	10	10
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<sup>1</sup> Because the OPEB plan does not depend on salary, we do not show salary information

**Notes to schedule:**

Information for fiscal year 2016 and earlier is not available

Benefit Changes: Effective January 1, 2020, the plan was changed to provide a health reimbursement plan (HRA) for participants. The County provides a fixed dollar benefit for retirees based on their years of service.

Change of assumptions:

The trend rates were adjusted to reflect the December 2019 Federal appropriations bill that eliminated the excise tax on the high cost plans.

Claims assumptions were updated to include the most recent three years of plan experience.

**THE CECIL COUNTY, MARYLAND NON-PENSION  
POST EMPLOYMENT BENEFIT TRUST  
SCHEDULE OF COUNTY CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2020**  
(dollar amounts in thousands)

	2020	2019	2018	2017
Actuarially determined contribution	\$ 155	\$ 155	\$ 233	\$ 331
Contributions in relation to the actuarially determined contribution	234	255	322	948
Contribution deficiency (excess)	\$ (79)	\$ (100)	\$ (89)	\$ (617)
Covered employee payroll <sup>1</sup>				
Contributions as a percentage of covered employee payroll <sup>1</sup>				

<sup>1</sup> Because the OPEB plan does not depend on salary, we do not show salary information

**Notes to schedule:**

**Valuation date:**

Actuarially determined contribution amounts are calculated as of the beginning of the fiscal year (July 1) for the year immediately following the fiscal year and the next following year. Actuarial valuations are performed every year.

**Methods and assumptions used to determine contribution rates:**

Actuarial cost method	Projected Unit Credit
Amortization method	Level Percent of Payroll
Remaining amortization period	20 years (as of July 1, 2020)
Asset valuation method	Market Value
Inflation	2.40%
Salary increases	2.5% per year
Investment rate of return	7.0%, net of investment expense
Healthcare cost trend rate	Based on the SOA Model was released in October 2010 and updated in October 2018 (1.5% GDP) adjusted for the effects of the Cadillac Tax set to take effect in 2022
Employees Included	25% of active employees enrolled in health care 5% of terminated employees currently enrolled in health care The OPEB coverage is assumed to begin at age 65
Marital Status and Age of Spouse	Actual coverage election

Information for fiscal year 2016 and earlier is not available.

**THE CECIL COUNTY, MARYLAND NON-PENSION  
POST EMPLOYMENT BENEFIT TRUST  
SCHEDULE OF INVESTMENT RETURNS  
FOR THE YEAR ENDED JUNE 30, 2020**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	1.36%	4.95%	7.67%	12.97%

**Notes to schedule:**

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is complied, pension plans should present information for those years for which information is available.

**THE CECIL COUNTY, MARYLAND NON-PENSION POST  
EMPLOYMENT BENEFITS TRUST**  
**OTHER SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2020**

**SCHEDULE OF ADMINISTRATIVE EXPENSES**

Professional Fees	<u>\$ 15,313</u>
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**SCHEDULE OF INVESTMENT EXPENSES**

Investment Managers	<u>\$ 25,751</u>
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**SCHEDULE OF PROFESSIONAL FEES PAID TO CONSULTANTS**

<u>Type of Service</u>	<u>Consultant</u>	
Actuary	Bolton Partners Inc	\$ 9,335
Auditing	SB & Company, LLC	4,370
Administrative	Flexible Benefit Administrators	1,608
Total Payments to Consultants		<u>\$ 15,313</u>