



THE CECIL COUNTY PENSION PLAN FOR PUBLIC SAFETY EMPLOYEES

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

A FIDUCIARY FUND OF
CECIL COUNTY, MARYLAND



Prepared by the Cecil County Department of Finance

THE CECIL COUNTY PENSION PLAN FOR PUBLIC SAFETY EMPLOYEES

ANNUAL FINANCIAL REPORT OF A PENSION FUND OF CECIL COUNTY, MARYLAND FOR THE FISCAL YEAR ENDED JUNE 30, 2022

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



April 3, 2023

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

Pursuant to Maryland state law that requires essentially all local governments' pension plans to prepare a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) in the United States as applicable to governments and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants, we hereby issue the Annual Financial Report of The Cecil County Pension Plan for Public Safety Employees (the Plan) for the fiscal year ended June 30, 2022. The Plan is a pension plan of Cecil County. This report is divided into two sections: an Introductory Section including the administrative organization and the letter of transmittal; and a Financial Section including the report of the independent public accountants, management's discussion and analysis, the basic financial statements of the Plan, and certain required supplementary information.

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

The Plan's financial statements have been audited by SB & Company, LLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Plan as of and for the fiscal year ended June 30, 2022 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and

significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the Cecil County Pension Plan for Public Safety Employees (the Plan) financial statements for the fiscal year ended June 30, 2022 are fairly presented in conformity with generally accepted accounting principles (GAAP). The independent public accountants report is presented as the first component of the Financial Section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Plan's MD&A can be found immediately following the report of independent public accountants.

Profile of the Plan

The Cecil County Pension Plan for Public Safety Employees was established effective July 1, 2002 under a plan document and trust agreement enacted by the Board of County Commissioners of Cecil County to provide retirement benefits to certain law enforcement and emergency services personnel. Responsibility for the administration and operation of the Plan is vested in a 9-member Board of Trustees appointed by the County Executive and subject to confirmation by the County Council.

The Plan serves members and beneficiaries totaling 488 as of June 30, 2022 (page 10). The Plan is a single-employer defined benefit plan that covers all full-time employees on the County's Public Safety Pay Plan hired after June 30, 2002, employees who have opted to convert from the Maryland State Retirement and Pension System (MSRPS) to the Plan, and the Cecil County Sheriff. Thus, the Plan covers a majority of the law enforcement officers, correctional officers and professionals of emergency services, of Cecil County, Maryland.

Major Initiatives

Current Year. During fiscal year 2022, a GASB 68 actuarial report was completed by Bolton Partners, as well as, a valuation report to determine the fiscal year 2023 contribution due from the County.

Long Term. The Board of Trustees will provide additional educational opportunities to Board members as an increased level of turnover has occurred in the Board. The Board of Trustees will continue to work to ensure that the Plan assets are invested with the long-term objective of earning amounts sufficient to cover expected benefit obligations, while assuming a prudent level of risk.

Additions and Deductions from Plan Net Position

Additions to the net position of \$8,380,164 were comprised of contributions from the County and plan participants of \$2,456,403, net investment income of \$2,315,094 and loss on market value of \$13,151,661 for fiscal year 2022. Deductions to the net position of \$3,139,061 include \$2,627,170 in direct pension payments to participants, \$466,162 return of contributions and interest to terminated participants and \$45,729 in administrative expenses, resulting in an decrease in net position of \$11,519,225 for fiscal year 2022.

The Plan was created to provide retirement annuities, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes

recurring benefit payments as designated by the Plan, refunds of contributions to terminated employees, and the cost of administering the Plan. The total deductions from Plan net position related to the above programs amounted to \$3,139,061 in fiscal year 2022.

Additional information regarding additions and deductions is contained in management's discussion and analysis which begins on page 3.

Investments

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

The Board of Trustees has established an investment policy that allows for the delegation of investment authority to professional investment advisors. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk deemed appropriate for the fund. Investment advisors are to execute the investment policy in accordance with the Plan and Trust documents, as well as, Board policy and established guidelines, but can use full discretion within the policy and guidelines. For fiscal year 2022, the return on investments, net of fees, was -11.25%.

Funding

A pension plan is well funded when its assets are equal to or greater than the net pension liability. The Plan's funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability, and the greater the level of investment potential.

Professional Services

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the Plan. An opinion from the certified public accountant is included in this report. The consultants appointed by the Board of Trustees are listed on page v.

Acknowledgements

The operation of the Plan was made possible by the efforts of the County Executive, County Council and other elected officials and department heads, the Trustees of the Plan, the Human Resources staff, members of the Department of Finance, and the cooperation of the members of the Plan. Preparation of the Annual Financial Report on a timely basis was made possible by the dedicated service of the Department of Finance staff.

In closing, the Trustees look forward to serving the members of The Cecil County Pension Plan for Public Safety Employees by providing benefits in their retirement.

Respectfully Submitted,

Shon McCollum
Trustee

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

Principal Officials & Consultants

June 30, 2022

Appointed Officials

Board of Trustees

| | |
|----------------------|----------------------|
| Trustee and Chairman | Angela T. Blodgett |
| Trustee | Mary McLennan |
| Trustee | Shon McCollum |
| Trustee | Stephen D. Brownhill |
| Trustee | Mathew Carr |
| Trustee | Angelia R. Lawson |
| Trustee | Steven Overbay |
| Trustee | Wayne L. Tome |
| Trustee | Vacant |

Consultants

| | |
|---|--|
| Legal Counsel | McGuireWoods, LLP |
| Independent Public Accountant Administrator Actuary | SB & Company, LLC Prudential Bolton Partners, Inc. |



SB & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE AUDIT OF THE FINANCIAL STATEMENTS

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

Opinion

We have audited the accompanying financial statements of the Cecil County Pension Plan for Public Safety Employees (the Plan), a fiduciary fund of Cecil County, Maryland, which comprise of the statement of net position as of June 30, 2022, and the related statement of changes in net position for the years then ended, and the related notes to the financial statements, which comprise the basic financial statement, as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as of June 30, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The Plan's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for one year beyond the date that the financial statements are available to be issued, including any currently known information that may raise substantial doubt shortly thereafter.



Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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 controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal controls–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, schedule of changes in the County’s net pension liability and related ratios, schedule of County contributions, and schedule of investment returns be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Plan's basic financial statements. The schedule of administrative expenses, schedule of investment expenses and schedule of professional fees paid to consultants are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of administrative expenses, schedule of investment expenses and schedule of professional fees paid to consultants are the responsibility of management and were derived from and relate 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 schedule of administrative expenses, schedule of investment expenses and schedule of professional fees paid to consultants are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information listed in the table of contents. The other information comprises the introductory section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Owings Mills, Maryland
April 3, 2023

A handwritten signature in cursive script that reads "SB & Company, LLC".

**The Cecil County Pension Plan for Public Safety Employees
Management's Discussion and Analysis, June 30, 2022**

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2022**

The Trustees of the Cecil County Pension Plan for Public Safety Employees are pleased to present to readers of the financial statements of the Plan this narrative overview and analysis of the financial activities of the Plan for the fiscal year ended June 30, 2022.

Financial Highlights

The assets of the Plan exceeded its liabilities at the close of the fiscal year by \$65,234.009 (net position). The Plan's net investment income decreased from a positive \$18,984,893 in 2021 to a negative \$11,314,014 in 2022. Pension benefits to retired participants increased from \$2,438,475 in 2021 to \$2,627,170 in 2022. Return of contributions and interest to terminating participants increased from \$148,698 in 2021 to \$466,162 in 2022. As of June 30, 2022, the Plan had 259 active members, 108 retired participants, 1 disabled participant and 32 terminated vested members not yet receiving benefits.

Overview of the Financial Statements

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

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

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

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

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

Required Supplementary Information. The Required Supplementary Information and related notes provide additional information that is essential to a full understanding of the funding progress of the pension plan. The information can be found beginning on page 15 of this report.

Additional information. Other supplementary information is shown on page 18.

**The Cecil County Pension Plan for Public Safety Employees
Management's Discussion and Analysis, June 30, 2022**

Financial Analysis of the Plan

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

| | <u>June 30, 2022</u> | <u>June 30, 2021</u> | <u>Increase (Decrease) Amount</u> | <u>Increase (Decrease) Percentage</u> |
|------------------------------------|----------------------|----------------------|---|---|
| <u>Assets</u> | | | | |
| Cash and Cash Equivalents | \$ 335,561 | \$ 379,229 | \$ (43,668) | -11.5% |
| Investments, at Fair Value | <u>64,899,035</u> | <u>76,374,554</u> | <u>(11,475,519)</u> | -15.0% |
| Total Assets | 65,234,596 | 76,753,783 | (11,519,187) | -15.0% |
| <u>Liabilities</u> | | | | |
| Total Liabilities | <u>587</u> | <u>549</u> | <u>38</u> | 6.9% |
| <u>Net Position</u> | | | | |
| Held in Trust for Pension Benefits | <u>\$ 65,234,009</u> | <u>\$ 76,753,234</u> | <u>\$ (11,519,225)</u> | -15.0% |

Net Plan position decreased by 15% to \$65,234,009. The decrease in net position of \$11,519,225 was made up of the following components: contributions from employer and active participants of \$2,933,850, net investment loss of \$11,314,014, benefit and refunds of contribution payments of \$3,093,332 and administrative expenses of \$45,729.

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

| | <u>2022</u> | <u>2021</u> | <u>Increase (Decrease) Amount</u> | <u>Increase (Decrease) Percentage</u> |
|--------------------------------|------------------------|----------------------|---|---|
| <u>Additions</u> | | | | |
| Contributions | \$ 2,933,850 | \$ 2,820,528 | \$ 113,322 | 4.0% |
| Net Investment Income (Loss) | <u>(11,314,014)</u> | <u>18,984,893</u> | <u>(30,298,907)</u> | -159.6% |
| Total Additions | (8,380,164) | 21,805,421 | (30,185,585) | -138.4% |
| <u>Deductions</u> | | | | |
| Pension Benefit Payments | 2,627,170 | 2,438,475 | 188,695 | 7.7% |
| Refunds of Contributions | 466,162 | 148,698 | 317,464 | 213.5% |
| Administrative Expenses | <u>45,729</u> | <u>34,699</u> | <u>11,030</u> | 31.8% |
| Total Deductions | <u>3,139,061</u> | <u>2,621,872</u> | <u>517,189</u> | 19.7% |
| Changes in Net Position | <u>\$ (11,519,225)</u> | <u>\$ 19,183,549</u> | <u>\$ (30,702,774)</u> | -160.0% |

The Plan experienced a decrease of \$11,519,225 net position in fiscal year 2022. Total contributions increased \$113,322 or 4.0% over 2022. Net investment income decreased year over year by \$30,298,907 or 159.6%. In addition, pension benefit payments increased by \$188,695 or 7.7% mainly due to an increase in the number of retired participants. The Plan experienced a \$11,030 or 31.8%

The Cecil County Pension Plan for Public Safety Employees Management's Discussion and Analysis, June 30, 2022

increase in administrative expenses. As of June 30, 2022, the Plan had 116 retired participants and 1 disabled participant receiving benefits, which included 9 new retirees during fiscal year 2022. In addition, there were 48 vested terminations not yet eligible to receive benefits as of June 30, 2022. Contribution refunds of \$466,162 were paid to 48 terminated participants in 2022 versus \$148,698 to 21 terminated participants in 2021.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances to participants in the Plan, the citizens of Cecil County, and other users of such data. Requests for additional copies of this report, an actuarial report, a list of investments, questions concerning any of the information in this report, and requests for additional financial information should be addressed to Shon McCollum, Cecil County Director of Finance, 200 Chesapeake Blvd, Suite 2200, Elkton, Maryland 21921.

BASIC FINANCIAL STATEMENTS

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
STATEMENT OF PLAN NET POSITION
AS OF JUNE 30, 2022**

ASSETS

| | |
|---------------------------|------------|
| Cash and Cash Equivalents | \$ 335,561 |
|---------------------------|------------|

| | |
|-------------------------------------|-------------------|
| Investments, at Fair Value (note 6) | <u>64,899,035</u> |
|-------------------------------------|-------------------|

| | |
|---------------------|------------|
| Total Assets | 65,234,596 |
|---------------------|------------|

LIABILITIES

| | |
|------------------|------------|
| Accounts Payable | <u>587</u> |
|------------------|------------|

NET POSITION

| | |
|------------------------------------|----------------------|
| Restricted for Pension Benefits | <u>\$ 65,234,009</u> |
|------------------------------------|----------------------|

The accompanying notes to the financial statements are an integral part of this statement.

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
STATEMENT OF CHANGE IN PLAN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2022**

ADDITIONS

| | |
|-------------------------|----------------------|
| Contributions | |
| Cecil County | \$ 1,900,798 |
| Participants | <u>1,033,052</u> |
| Total Contributions | <u>2,933,850</u> |

INVESTMENT INCOME

| | |
|------------------------------|-------------------------|
| Net Depreciation | |
| in Fair Value of Investments | (13,151,661) |
| Interest and Dividends | <u>2,315,094</u> |
| Investment Loss | (10,836,567) |
| Less: Investment Expense | <u>(477,447)</u> |
| Net Investment Loss | <u>(11,314,014)</u> |
| Total Deductions | <u>(8,380,164)</u> |

DEDUCTIONS

| | |
|--------------------------|----------------------|
| Pension Benefit Payments | 2,627,170 |
| Refunds of Contributions | 466,162 |
| Administrative Expense | <u>45,729</u> |
| Total Deductions | <u>3,139,061</u> |

Change in Net Position (11,519,225)

Restricted

for Pension Benefits

| | |
|----------------------------------|--------------------------|
| Net Position - Beginning | <u>76,753,234</u> |
| Net Position - Ending | <u>\$ 65,234,009</u> |

The accompanying notes to the financial statements are an integral part of this statement.

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022

1. Summary of Significant Accounting Policies

The financial statements of the Cecil County Pension Plan for Public Safety Employees (the Plan) 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 principals. During the year ending June 30, 2022 the County has adopted all applicable GASB Statements through No. 101 (other than those listed below); these statements did not have a material effect on the County's financial statements.

GASB has issued the following Statements which the County plans to adopt by their effective dates after evaluating the effects of these pronouncements.

- Statement No. 91 Conduit Debt Obligations
- Statement No. 94 Public-Private and Public-Public Partnerships and Availability Payment Arrangements
- Statement No. 96 Subscription-Based Information Technology Arrangements
- Statement No. 99 Omnibus 2022
- Statement No. 100 Accounting Changes and Error Corrections
- Statement No. 101 Compensated Absences

The following summarizes the Plan's significant accounting policies:

Financial Reporting Entity

The Cecil County Pension Plan for Public Safety Employees was established effective July 1, 2002, under a plan document and trust agreement enacted by the Cecil County Board of Commissioners to provide retirement benefits to certain law enforcement and emergency services personnel. The Plan is a single-employer public employee defined benefit pension plan. Responsibility for the administration and operation of the Plan is vested in a 9-member Board of Trustees appointed by the County Executive and subject to confirmation by the County Council. The County's Human Resources Department and Finance Department provide professional and accounting services as needed.

Although the Plan is a legally separate entity, the County appoints all members of the Plan's Board of Trustees and makes all employer contributions to the Plan. Only County public safety employees can be members of the Plan and the County is financially responsible for the Plan's pension obligations. The Plan is a blended component unit of Cecil County, Maryland, because it provides services and benefits exclusively to the County.

Additional copies of this annual financial report and actuarial information should be addressed to Shon McCollum, Cecil County Director of Finance, 200 Chesapeake Blvd, Suite 2200, Elkton, Maryland 21921

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds of contributions are recognized when due and payable in

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022

accordance with the terms of the Plan.

Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. For fixed income securities, fair value may be based on quoted market prices.

The pension plan is authorized by the Plan and a trust agreement with the County Council of Cecil County to establish an investment policy and invest long-term to pay benefits to plan members. The investment policy allocates investments between 1) large, mid and small capitalization stocks, and international equities traded on national exchanges; 2) fixed income domestic debt securities traded on national exchanges; and 3) cash equivalents (deposits or short-term investments maturing within a year). Certain investments are prohibited. Specific allocation targets are reviewed annually and are to be diversified as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> |
|---------------------------|---------------------------------|
| U.S. Large cap equities | 34% |
| U.S. Mid cap equities | 8% |
| U.S. Small cap equities | 10% |
| International equities | 12% |
| Emerging Markets | 3% |
| Fixed Income | <u>33%</u> |
| Total | <u>100%</u> |

Rate of Return. For the year ended June 30, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -11.25%.

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.

**The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022**

2. Plan Membership

Membership of the Plan consisted of the following as of June 30, 2022, provided by the Plan administrator.

| | |
|---|------------|
| Retirees and Beneficiaries receiving Benefits | 116 |
| Disabled & Disabled Beneficiaries | 1 |
| Vested Terminations not yet eligible to receive benefits | 48 |
| Terminated Plan members non-vested and due a return of contribution | 114 |
| Active Plan Members | <u>227</u> |
| Total | <u>506</u> |

3. Plan Description Summary

The following summary description does not replace any Plan documents.

Plan Description and Eligibility: The Plan is a single-employer defined benefit plan that covers all full-time employees on the County's Public Safety Pay Plan hired after June 30, 2002, employees who have opted to convert from the Maryland State Retirement and Pension System (MSRPS) to the Plan, and the Cecil County Sheriff.

Service Benefits: Monthly income for life is based on 2.0% of average annual compensation multiplied by years of service, not to exceed 25 years, divided by 12. Average annual compensation is one third of the compensation of the covered employee during whatever period of 36 consecutive months of creditable service will provide the largest total compensation for any such period.

Vesting: 100% with 5 or more years of eligible service. Contributions are refunded upon termination for less than 5 years of service with interest of 5% on accumulated contributions.

Retirement: Normal – First of the month coincident with or immediately following the earlier of 25 years of eligible service or attainment of age 55 with 5 years of eligible service. Early – with 20 years of eligible service regardless of age, the normal retirement benefit is reduced by 6% per year for each year prior to the normal retirement date.

Disability Benefits: Benefit for ordinary disability is based on years of creditable service. Benefit for disability occurring in the line of duty is a monthly payment of 66.67% of average annual compensation reduced by any social security and worker's compensation benefits; there is no minimum service requirement. Applications are reviewed by a disability review board.

Survivor Benefit: Various depending on the option of the participant.

Death Benefit: Ordinary – After one year of creditable service, the surviving spouse shall receive a lump sum equal to participant's contributions plus interest plus one year of pay. Line of duty – has no eligibility requirement and a monthly benefit is paid to the surviving spouse (for life) or, if there is no surviving spouse, to minor children (until maturity). In the absence of a surviving spouse or minor children, benefits calculated as if ordinary will be paid to a named beneficiary or, lacking this, to the

**The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022**

estate of the participant.

4. Contributions

Plan members are required to contribute 8% of the base compensation. Base compensation excludes overtime, extra-remuneration, reimbursed expenses, and essentially excludes tax related adjustments. Notwithstanding the foregoing, a participant shall not be required to make any further contributions to the Plan on and after the date on which such participant is credited with twenty-five years of creditable service.

Cecil County as the employer is required to make actuarially determined annual contribution amounts.

This Plan is the successor to a plan offered by the State Retirement and Pensions System of Maryland (the State Plan). As such, assets related to participants of the State Plan who opted to become participants of the new plan were transferred to the Plan in several transactions during fiscal years 2003 and 2004.

5. Net Pension Liability of the County

The County's net pension liability was measured as of June 30, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total pension liability was determined by an actuarial valuation as of July 1, 2021 rolled forward to June 30, 2022 using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Asset Valuation Method | 5-year smoothed market |
| Actuarial Cost Method | Projected Unit Cost |
| Inflation | 2.5% |
| Salary increases | Rates vary by participant service |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation |
| Mortality | For healthy participants and beneficiaries, the RP-2014 Combined Healthy tables with the Blue Collar adjustment and generational projection by Scale MP-2015. For disabled participants, the table is set forward five years. |

The actuarial assumptions used in the June 30, 2022 valuation are largely based on an experience study completed in July 2018, reflecting July 1, 2002 to June 30, 2017 experience. The Plan Trustees intend to authorize periodic experience studies in the future.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimates 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 allocation percentage and by adding expected inflation (2.5%). The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Domestic equity | 52% | 7.1% |
| International equity | 12% | 8.0% |
| Emerging Markets | 3% | 8.6% |
| Fixed income | 32% | 2.4% |
| Cash | 1% | 1.9% |

Discount Rate: The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed the plan member contributions will be made at the current contribution rate and that the County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

| Changes in Net Pension Liability | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (Asset) (a) - (b) |
|---|--------------------------------|------------------------------------|--|
| Balances at 6/30/21 | \$ 73,778,395 | \$ 76,753,234 | \$ (2,974,839) |
| Changes for the year: | | | |
| Service cost | 2,505,242 | - | 2,505,242 |
| Interest | 4,875,642 | - | 4,875,642 |
| Changes of benefit terms | - | - | - |
| Differences between expected and actual experience | (193,444) | - | (193,444) |
| Changes of assumptions | 2,749,649 | - | 2,749,649 |
| Contributions - employer | - | 1,900,798 | (1,900,798) |
| Contributions - member | - | 1,033,052 | (1,033,052) |
| Net investment income | - | (11,314,014) | 11,314,014 |
| Benefit payments, including refunds of member contributor | (3,093,332) | (3,093,332) | - |
| Administrative expense | - | (45,729) | 45,729 |
| | - | - | - |
| Net Changes | <u>6,843,757</u> | <u>(11,519,225)</u> | <u>18,362,982</u> |
| Balances at 6/30/22 | <u>\$ 80,622,152</u> | <u>\$ 65,234,009</u> | <u>\$ 15,388,143</u> |

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 6.75 percent, 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 (5.75 percent) or 1 percentage point higher (7.75 percent) than the current rate:

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022

| | 1% Decrease 5.75% | Current Discount Rate 6.75% | 1% Increase 7.75% |
|--------------------------------|----------------------|-----------------------------------|----------------------|
| County's net pension liability | \$ 27,797,943 | \$ 15,388,143 | \$ 5,398,538 |

6. Cash Deposits and Investment Portfolio Disclosure

Investment policy information was discussed in Note 1. As of June 30, 2022, the Plan had the following investments. Money market mutual funds are classified as cash and cash equivalents on the Statement of Net Assets.

| | |
|---------------------------|---------------------|
| Money Market Mutual Fund | \$ 335,561 |
| Investments at fair value | 64,899,035 |
| Total Investments | \$65,234,596 |

Below is a list of Investments the Plan was invested in as of June 30, 2022:

| | |
|---|----------------------|
| MFS Investment Management - Large Cap Growth | \$ 10,534,221 |
| JP Morgan - Large Cap Value | 12,606,058 |
| Robeco - Mid Cap Value | 3,223,139 |
| Frontier Capital Management - Mid Cap Growth | 2,398,925 |
| Prudential Jennison - Small Cap Growth | 2,966,167 |
| Integrity Asset Management - Small Cap Value | 3,842,155 |
| Pictet Asset Management - International Blend | 7,409,150 |
| JP Morgan Emerging Markets -Equity Institutional | 1,540,391 |
| Prudential Core Bond Enhanced Index - Fixed Inc. Dom. | 10,267,519 |
| Prudential Core Plus Bond Fund - Fixed Inc. Dom. | 10,111,311 |
| Total Investments at fair value | \$ 64,899,035 |

The summary below identifies the fair market value level of the investments as of June 30, 2022

| | 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 |
|--|---|--|--|-----------------------------|
| <u>Investments by Fair Value Level:</u> | | | | |
| Institutional Separate Accounts | \$ - | \$ 60,469,785 | \$ - | \$ 60,469,785 |
| Equity Mutual Funds | 4,429,251 | | - | 4,429,251 |
| Total Investments at Fair Value | \$ 4,429,251 | \$ 60,469,785 | \$ - | \$ 64,899,035 |

The Cecil County Pension Plan for Public Safety Employees
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022

Fair Market Value Levels: 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. Institutional Separate accounts classified in level 2 of the fair value hierarchy are valued based on quoted prices for similar assets in active markets or identical assets in less active markets, such as dealers or broker markets.

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

Concentration of Credit Risk: The Plan's investment policy applies the prudent person rule to its investments. The Plan invests in institutional separate accounts, which are essentially mutual funds. This sub-advised approach provides the Plan with access to some of the most respected investment professionals in the industry. The investment policy establishes an asset allocation by asset class where allowable ranges are identified by asset class. Rebalancing is performed on at least a quarterly basis, as appropriate, such that the allocation for each asset class shall not exceed the bounds of the allowable ranges. As of June 30, 2022, the Plan complied with the Plan's investment policy.

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

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
SCHEDULE OF CHANGES IN THE COUNTY'S
NET PENSION LIABILITY AND RELATED RATIOS**

(dollar amounts in thousands)

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total Pension Liability | | | | | | | | | |
| Service cost | \$ 2,505 | \$ 2,261 | \$ 2,243 | \$ 2,240 | \$ 2,417 | \$ 2,336 | \$ 2,339 | \$ 2,284 | \$ 2,198 |
| Interest | 4,876 | 4,820 | 4,495 | 4,248 | 3,881 | 3,770 | 3,553 | 3,327 | 2,922 |
| Differences between expected and actual experience | (193) | (865) | 542 | (323) | 1,284 | (1,268) | (736) | (1,215) | - |
| Changes of assumptions | 2,750 | - | - | (71) | - | (998) | - | 675 | 2,298 |
| Benefit payments, including refunds of member contributions | (3,093) | (2,587) | (2,700) | (2,416) | (2,265) | (2,242) | (1,878) | (1,809) | (1,456) |
| Net change in total pension liability | 6,844 | 3,629 | 4,581 | 3,678 | 5,316 | 1,598 | 3,278 | 3,262 | 5,963 |
| Total pension liability - beginning | 73,778 | 70,150 | 65,569 | 61,891 | 56,575 | 54,977 | 51,699 | 48,437 | 42,475 |
| Total pension liability - ending (a) | \$ 80,622 | \$ 73,778 | \$ 70,150 | \$ 65,569 | \$ 61,891 | \$ 56,575 | \$ 54,977 | \$ 51,699 | \$ 48,437 |
| Plan fiduciary net position | | | | | | | | | |
| Contributions - employer | \$ 1,901 | \$ 1,787 | \$ 1,615 | \$ 1,898 | \$ 1,677 | \$ 2,103 | \$ 2,288 | \$ 2,200 | \$ 2,268 |
| Contributions - member | 1,033 | 1,033 | 997 | 974 | 955 | 958 | 925 | 910 | 878 |
| Net investment income | (11,314) | 18,985 | (892) | 2,106 | 4,490 | 6,587 | (1,304) | 1,317 | 6,149 |
| Benefit payments, including refunds of member contributions | (3,093) | (2,587) | (2,700) | (2,416) | (2,265) | (2,242) | (1,878) | (1,809) | (1,456) |
| Administrative expense | (46) | (35) | (46) | (36) | (55) | (56) | (67) | (47) | (33) |
| Other | - | - | - | - | - | - | - | (4) | - |
| Net change in plan fiduciary net position | \$ (11,519) | \$ 19,184 | \$ (1,026) | \$ 2,527 | \$ 4,802 | \$ 7,350 | \$ (35) | \$ 2,567 | \$ 7,805 |
| Plan fiduciary net position - beginning | 76,753 | 57,570 | 58,596 | 56,068 | 51,266 | 43,917 | 43,952 | 41,385 | 33,580 |
| Plan fiduciary net position - ending (b) | \$ 65,234 | \$ 76,753 | \$ 57,570 | \$ 58,596 | \$ 56,068 | \$ 51,266 | \$ 43,917 | \$ 43,952 | \$ 41,385 |
| County's net pension liability (asset) - ending (a)-(b) | \$ 15,388 | \$ (2,975) | \$ 12,580 | \$ 6,973 | \$ 5,823 | \$ 5,308 | \$ 11,060 | \$ 7,747 | \$ 7,052 |
| Plan fiduciary net position as a percentage of the total pension liability | 80.91% | 104.03% | 82.07% | 89.36% | 90.59% | 90.62% | 79.88% | 85.02% | 85.44% |
| Covered employee payroll | \$ 14,357 | \$ 13,738 | \$ 13,635 | \$ 13,494 | \$ 12,526 | \$ 11,869 | \$ 11,638 | \$ 11,506 | \$ 10,968 |
| County's net pension liability as a percentage of covered-employee payroll | 107.18% | -21.65% | 92.26% | 51.68% | 46.48% | 44.72% | 95.04% | 67.33% | 64.29% |
| Expected average remaining service years of all participants | 5 | 5 | 5 | 5 | 6 | 6 | 6 | 6 | 6 |

Notes to schedule:

Information for fiscal year 2013 and earlier is not available

Benefit Changes: None

Change of assumptions: None

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
SCHEDULE OF COUNTY CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2022**
(dollar amounts in thousands)

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Actuarially determined contribution | \$ 1,901 | \$ 1,787 | \$ 1,615 | \$ 1,898 | \$ 1,677 | \$ 2,103 | \$ 2,171 | \$ 2,200 | \$ 2,268 |
| Contributions in relation to the actuarially determined contribution | 1,901 | 1,787 | 1,615 | 1,898 | 1,677 | 2,103 | 2,288 | 2,200 | 2,268 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ (117) | \$ - | \$ - |
| Covered employee payroll | \$ 14,357 | \$ 13,738 | \$ 13,635 | \$ 13,494 | \$ 12,526 | \$ 11,869 | \$ 11,638 | \$ 11,506 | \$ 10,968 |
| Contributions as a percentage of covered employee payroll | 13.24% | 13.01% | 11.85% | 14.07% | 13.39% | 17.72% | 19.66% | 19.12% | 20.68% |

Notes to schedule:

Valuation date:

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

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Level Percentage of Payroll |
| Remaining amortization period | Ranging from 2 to 16 years |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.5% |
| Salary increases | Rates vary by participant service |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation |
| Retirement age | Rates vary by participant age and service |
| Mortality | For healthy participants and beneficiaries, the RP-2014 Combined Healthy tables with the Blue Collar adjustment and generational projection by Scale MP-2015. For disabled participants, the table is set forward five years. |

Other information: Information for fiscal year 2013 and earlier is not available

**THE CECIL COUNTY PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED JUNE 30, 2022**

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------|--------|--------|-------|-------|--------|--------|-------|--------|
| Annual money-weighted rate of return, net of investment expense | -11.25% | 32.66% | -1.39% | 3.89% | 8.79% | 14.82% | -2.93% | 3.10% | 17.88% |

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 PENSION PLAN
FOR PUBLIC SAFETY EMPLOYEES
OTHER SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2022**

SCHEDULE OF ADMINISTRATIVE EXPENSES

| | | |
|-----------------------------------|--|----------------------|
| Professional Fees | | \$ 39,327 |
| Insurance | | <u>6,402</u> |
| Total Administrative Expenses | | <u>\$ 45,729</u> |

SCHEDULE OF INVESTMENT EXPENSES

| | | |
|-------------------------------|--|-----------------------|
| Investment Managers | | \$ 442,447 |
| Investment Consultant | | <u>35,000</u> |
| Total Investment Expenses | | <u>\$ 477,447</u> |

SCHEDULE OF PROFESSIONAL FEES PAID TO CONSULTANTS

| <u>Type of Service</u> | <u>Consultant</u> | |
|-----------------------------------|----------------------|----------------------|
| Administrator | Prudential | \$ 3,423 |
| Auditing | SB & Company, LLC | 4,591 |
| Actuary | Bolton Partners, Inc | 21,548 |
| Legal | McGuireWoods, LLP | 6,615 |
| Other | MCMC , LLC | <u>3,150</u> |
| Total Payments to Consultants | | <u>\$ 39,327</u> |