



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

**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, 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, 2022

TABLE OF CONTENTS

INTRODUCTORY SECTION

| | <u>Page</u> |
|-----------------------------------|-------------|
| Letter of Transmittal | i |
| Principal Officials & Consultants | iv |

FINANCIAL SECTION

| | |
|---|----|
| Report of Independent Public Accountants | 1 |
| Management's Discussion and Analysis | 4 |
| Basic Financial Statements | |
| Statement of Net Position | 7 |
| Statement of Change in Net Position | 8 |
| Notes to the Financial Statements | 9 |
| Required Supplementary Information | |
| Schedule of Changes in County's Net OPEB Liability/(Asset) and Related Ratios | 16 |
| Schedule of County Contributions | 17 |
| Schedule of Investment Returns | 18 |
| Other Supplementary Information | |
| Schedule of Administrative Expenses | 19 |
| Schedule of Investment Expenses | 19 |
| Schedule of Professional Fees Paid to Consultants | 19 |

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

April 3, 2023

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, 2022. 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 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, 2022, 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, 2022 which means that the financial statements are fairly presented in conformity with Generally Accepted Accounting Principles in the United States (GAAP). The independent public accountant's 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 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, 2022 the most recent actuarial valuation, amounted to \$3,648,307 and \$9,187,881 respectively, or 251.84% 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

Net investment earnings of \$248,460 and \$1,667,134 of a decrease in market value resulted in net investment loss of \$1,418,674 for fiscal year 2022.

The Trust paid \$61,600 in subsidies for retirees' health care premiums, \$71,211 to the health insurance plan for HRA contributions, \$1,296 for third-party administrative services, \$4,591 for auditing services and \$18,240 for actuarial services resulting in total deductions of \$158,234 from the Trust.

Net position of the Trust decreased by \$1,500,640 and totaled \$7,687,241 as of June 30, 2022.

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 a decrease in net position of 16.11%. As of June 30, 2022, the OPEB Trust's net position as a percentage of the total OPEB liability is 203.20%. 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,

Shon McCollum
Trustee

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

Principal Officials & Consultants

June 30, 2022

Appointed Officials

Board of Trustees

Trustee
Trustee
Trustee

Shon McCollum, Chairperson
Antonio Prattico
Angie Lawson

Consultants

Actuary
Administrator
Independent Public Accountant

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



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, Maryland Non-Pension Post Employment Benefits Trust (the Trust), 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 year then ended, and the related notes to the financial statements, which comprise the Trust's basic financial statements, 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 Trust as of June 30, 2022, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Trust 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 Trust'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 Trust'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 Trust’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 Trust’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 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 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 Trust'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

SB & Company, LLC

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust
Management's Discussion and Analysis, June 30, 2022**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2022**

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, 2022.

Financial Highlights

The assets of the Trust exceeded its liabilities at the close of the fiscal year by \$7,687,241 (net position). The Trust's total contributions increased from \$50,000 in 2021 to \$99,916 in 2022. The net investment income decreased from \$2,059,847 in 2021 to \$(1,443,618) in 2022. 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) presents 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 15 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, 2022**

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>2022</u> | <u>June 30,</u> <u>2021</u> | <u>Increase</u> <u>(Decrease)</u> <u>Amount</u> | <u>Increase</u> <u>(Decrease)</u> <u>Percentage</u> |
|--------------------------------------|--------------------------------|--------------------------------|---|---|
| <u>Assets</u> | | | | |
| Cash and Cash Equivalents | \$ 198,982 | \$ 185,622 | \$ 13,360 | 7.2% |
| A/R Other | 99,916 | - | 99,916 | |
| Investments, at Fair Value | 7,364,025 | 8,829,728 | (1,465,703) | -16.6% |
| Maryland Local Govt. Investment Pool | 24,387 | 181,153 | (156,766) | -86.5% |
| Total Assets | <u>7,687,310</u> | <u>9,196,503</u> | <u>(1,509,193)</u> | -16.4% |
| <u>Liabilities</u> | | | | |
| Accounts Payable | 69 | 241 | (172) | -71.4% |
| Accrued Expenses | - | 8,381 | (8,381) | -100.0% |
| Total Liabilities | <u>69</u> | <u>8,622</u> | <u>(8,553)</u> | -99.2% |
| <u>Net Position</u> | | | | |
| Held in Trust for Participants | <u>\$ 7,687,241</u> | <u>\$ 9,187,881</u> | <u>\$ (1,500,640)</u> | -16.3% |

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 a decrease in net position of \$1,500,640 in fiscal year 2022. Total contributions increased to \$99,916 or 99.8%. Net investment income decreased by \$3,503,465. Benefit payments increased by \$13,044 and Administrative expenses increased \$245 or 1%.

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

| | <u>2022</u> | <u>2021</u> | <u>Increase</u> <u>(Decrease)</u> <u>Amount</u> | <u>Increase</u> <u>(Decrease)</u> <u>Percentage</u> |
|--------------------------|-----------------------|---------------------|---|---|
| <u>Additions</u> | | | | |
| Contributions | \$ 99,916 | \$ 50,000 | \$ 49,916 | 99.8% |
| Net Investment Income | (1,443,618) | 2,059,847 | (3,503,465) | 170.1% |
| Total Additions | <u>(1,343,702)</u> | <u>2,109,847</u> | <u>(3,453,549)</u> | -163.7% |
| <u>Deductions</u> | | | | |
| Benefit Payments | 132,811 | 119,767 | 13,044 | 10.9% |
| Administrative Expenses | 24,127 | 23,882 | 245 | 1.0% |
| Total Deductions | <u>156,938</u> | <u>143,649</u> | <u>13,289</u> | 9.3% |
| Changes in Net Position | <u>\$ (1,500,640)</u> | <u>\$ 1,966,198</u> | <u>\$ (3,466,838)</u> | -176.3% |

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust
Management's Discussion and Analysis, June 30, 2022**

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 Cecil County Director of Finance, 200 Chesapeake Blvd, Suite 2300, Elkton, Maryland 21921.

BASIC FINANCIAL STATEMENTS

**THE CECIL COUNTY, MARYLAND NON-PENSION POST
EMPLOYMENT BENEFITS TRUST
STATEMENT OF NET POSITION
AS OF JUNE 30, 2022**

ASSETS

| | |
|--------------------------------------|------------------|
| Cash and Cash Equivalents | \$ 198,982.00 |
| Accounts Receivable Other | 99,916 |
| Investments, at Fair Value | |
| Mutual Funds | 7,364,025 |
| Maryland Local Govt. Investment Pool | 24,387 |
| | 7,687,310 |
| Total Assets | 7,687,310 |

LIABILITIES

| | |
|--------------------------|-----------|
| Accounts Payable | 69 |
| Accrued Expenses | 69 |
| | 69 |
| Total Liabilities | 69 |

NET POSITION

| | |
|-----------------------------------|---------------------|
| Held in Trust for Participants | \$ 7,687,241 |
|-----------------------------------|---------------------|

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, 2022**

ADDITIONS

| | |
|---------------------|--------|
| County Contribution | 99,916 |
|---------------------|--------|

INVESTMENT INCOME

| | |
|--|----------------|
| Net Depreciation in Fair Value of Investments | (1,667,134) |
| Interest and Dividends | <u>248,460</u> |

| | |
|-------------------|-------------|
| Investment Income | (1,418,674) |
|-------------------|-------------|

| | |
|--------------------------|-----------------|
| Less: Investment Expense | <u>(24,944)</u> |
|--------------------------|-----------------|

| | |
|---------------------|--------------------|
| Net Investment Loss | <u>(1,443,618)</u> |
|---------------------|--------------------|

| | |
|-----------------|--------------------|
| Total Additions | <u>(1,343,702)</u> |
|-----------------|--------------------|

DEDUCTIONS

| | |
|------------------------|---------------|
| Benefit Payments | 132,811 |
| Administrative Expense | <u>24,127</u> |

| | |
|------------------|----------------|
| Total Deductions | <u>156,938</u> |
|------------------|----------------|

| | |
|-------------------------------|--------------------|
| Change in Net Position | (1,500,640) |
|-------------------------------|--------------------|

**Restricted
for Participants**

| | |
|---------------------------------|------------------|
| Net Position - Beginning | <u>9,187,881</u> |
|---------------------------------|------------------|

| | |
|------------------------------|----------------------------|
| Net Position - Ending | <u>\$ 7,687,241</u> |
|------------------------------|----------------------------|

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, 2022

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, 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 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 Actuarially Defined Contribution 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 January 1, 2020, the date of the last actuarial valuation, approximately 57 retirees and their beneficiaries were receiving benefits, and an estimated 741 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 Cecil County, Maryland Non-Pension Post Employment Benefits Trust Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022

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>.

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 11. 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, 2022, the annual money-weighted rate of return on OPEB investments, net of OPEB investment expense, was -16.11%.

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

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022**

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) or fixed dollar amount for HRA members 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, 2022 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. Actuarial Assumptions: The total OPEB liability was determined by an actuarial valuation as of January 1, 2020 rolled forward to June 30, 2022 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 (Closed) |
| Amortization period | 17 years (as of July 1, 2022) |
| 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) |
| 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, 2022 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

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022**

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% |

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)

| | <u>Total OPEB Liability</u> (a) | <u>Plan Fiduciary Net Position</u> (b) | <u>Net OPEB Liability/(Asset)</u> (a) - (b) |
|-------------------------------|------------------------------------|---|--|
| Balances at 6/30/21 | \$ 3,648,307 | \$ 9,187,881 | \$ (5,539,574) |
| Changes for the year: | | | |
| Service Cost | 91,163 | - | 91,163 |
| Interest | 248,223 | - | 248,223 |
| Changes of Benefit Terms | - | - | - |
| Experience Losses (Gains) | (71,730) | - | (71,730) |
| Trust Contribution - Employer | - | 99,916 | (99,916) |
| Net Investment Income | - | (1,443,618) | 1,443,618 |
| Changes in Assumptions | - | - | - |
| Benefit Payments | (132,811) | (132,811) | - |
| Administrative Expense | - | (24,127) | 23,882 |
| Net Changes | <u>134,845</u> | <u>(1,500,640)</u> | <u>1,635,485</u> |
| Balances at 6/30/22 | <u>\$ 3,783,152</u> | <u>\$ 7,687,241</u> | <u>\$ 3,904,089</u> |
| <i>Funded Status</i> | | <i>203.20%</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 6.0% | Discount rate 7.0% | 1% increase 8.0% |
|----------------------------|---------------------|-----------------------|---------------------|
| Net OPEB Liability (Asset) | (3,453,102) | (3,904,089) | (4,285,083) |

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

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022**

percentage point higher.

| | 1% decrease | Medical rate | 1% increase |
|----------------------------|-------------|--------------|-------------|
| | 2.90% | 3.90% | 4.90% |
| Net OPEB Liability (Asset) | (3,968,665) | (3,904,089) | (3,830,496) |

4. Cash Deposits and Investment Portfolio Disclosure

Investment policy information is further discussed in Note 1. As of June 30, 2022, 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 | \$24,387 |
| Money Market Mutual Fund | 198,982 |
| Mutual Funds | 7,364,025 |
| Total Investments | <u>\$7,587,394</u> |

The Cecil County, Maryland Non-Pension Post Employment Benefits Trust
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022

List of Mutual Funds the Trust was invested in as of June 30, 2022:

| | | | |
|---------------------------------|------------|------------------------------------|--------------|
| Blackrock High Yield | \$ 141,740 | Ishares Cord S&P Small Cap ETF | 222,894 |
| Blackrock Low Duration | 331,647 | IsharesTr Russell 2000 Growth(IWO) | 416,127 |
| iShares Tips Bond | 205,380 | IsharesTr Russell 2000 Index (IWM) | 220,337 |
| Dodge & Cox Income Fund | 782,047 | Vanguard Small Cap Value (VBR) | 376,048 |
| iShares JP Morgan USD Emerging | 156,136 | Total Small Capitalization | 1,235,406 |
| T Rowe Price Institutional | 171,937 | | |
| Vanguard Total Bond Index Fund | 734,169 | Fidelity Real Est (FREL) | 124,501 |
| Total Fixed Income | 2,523,056 | T Rowe Price Growth Stock | 231,330 |
| | | Invesco QQQ Trust (QQQ) | 205,726 |
| iShares MSCI EAFE ETF (EFA) | 364,692 | Fidelity 500 Index FD-A | 548,566 |
| Dodge & Cox Intl (DODFX) | 206,167 | Vanguard Value ETF | 498,111 |
| iShares MSCI EAFE Growth (EFG) | 191,888 | Total Large Capitalization | 1,608,234 |
| Total International | 762,747 | | |
| | | Seafarer Overseas Growth | 112,669 |
| Vanguard MidCap Value Index ETF | 295,306 | Touchstone Sands EMGR- Inst | 91,514 |
| Vanguard MidCap (VO) | 183,773 | Total Emerging Markets | 204,183 |
| Vanguard MidCap Growth (VOT) | 342,166 | | |
| Principal Mid Cap Fund (PMAQX) | 209,153 | Total Investments | \$ 7,364,025 |
| Total Mid Capitalization | 1,030,398 | | |

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> | | | | |
| Fixed Income Funds | \$ 2,523,056 | \$ - | \$ - | \$ 2,523,056 |
| Equity Mutual Funds | 4,840,969 | - | - | 4,840,969 |
| Total Investments at Fair Value | \$ 7,364,025.00 | \$ - | \$ - | \$ 7,364,025.00 |
| <u>Investments carried at Amortized Cost:</u> | | | | |
| MLGIP | | | | 24,387 |
| Total investments at Amortized Cost | | | | 24,387 |
| Total investments | | | | \$ 7,388,412 |

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.

**The Cecil County, Maryland Non-Pension Post Employment Benefits Trust
Notes to the Financial Statements for the Fiscal Year Ended June 30, 2022**

Credit Risk. No rating was available for the Money Market Mutual Fund. The Trust held 25 separate Bond/Stock funds as of June 30, 2022, of which seven had a Morningstar rating of 5 stars (the best rating is 5 stars). Eight of the funds had a Morningstar rating of 4, eight of the funds had a rating of 3 stars and the remaining funds had a Morningstar rating of 2.

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.

**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)

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|-------------------|-------------------|-------------------|-----------------|-----------------|-----------------|
| Total OPEB Liability | | | | | | |
| Service cost | \$ 91 | \$ 90 | \$ 270 | \$ 315 | \$ 331 | \$ 309 |
| Interest | 248 | 273 | 429 | 430 | 437 | 415 |
| Changes of benefit terms | - | - | (2,339) | | | |
| Differences between expected and actual experience | (72) | (453) | (143) | (145) | (589) | - |
| Changes of assumptions | - | (161) | (348) | (379) | - | - |
| Benefit payments, including refunds of member contributions | (133) | (120) | (102) | (235) | (301) | (534) |
| Net change in total OPEB liability | 135 | (370) | (2,232) | (14) | (123) | 190 |
| Total OPEB liability - beginning | 3,648 | 4,018 | 6,251 | 6,265 | 6,388 | 6,198 |
| Total OPEB liability - ending (a) | <u>\$ 3,783</u> | <u>\$ 3,648</u> | <u>\$ 4,018</u> | <u>\$ 6,251</u> | <u>\$ 6,265</u> | <u>\$ 6,388</u> |
| Plan fiduciary net position | | | | | | |
| Contributions - employer | \$ 100 | \$ 50 | \$ 234 | \$ 255 | \$ 322 | \$ 948 |
| Net investment income | (1,444) | 2,060 | 95 | 326 | 467 | 651 |
| Benefit payments | (133) | (120) | (102) | (235) | (301) | (534) |
| Administrative expense | (24) | (24) | (15) | (24) | (32) | (20) |
| Net change in fiduciary net position | \$ (1,501) | \$ 1,966 | \$ 212 | \$ 322 | \$ 456 | \$ 1,045 |
| Fiduciary net position - beginning | 9,188 | 7,222 | 7,010 | 6,688 | 6,232 | 5,187 |
| Fiduciary net position - ending (b) | <u>\$ 7,687</u> | <u>\$ 9,188</u> | <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>\$ (3,904)</u> | <u>\$ (5,540)</u> | <u>\$ (3,203)</u> | <u>\$ (759)</u> | <u>\$ (423)</u> | <u>\$ 156</u> |
| Fiduciary net position as a percentage of the total OPEB liability | 203.20% | 251.84% | 179.72% | 112.15% | 106.76% | 97.56% |
| Covered employee payroll ¹ | | | | | | |
| County's net OPEB liability as a percentage of covered-employee payroll ¹ | | | | | | |
| Expected average remaining service years of all participants | 10 | 10 | 10 | 10 | 10 | 10 |

¹ 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 was 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, 2022**
(dollar amounts in thousands)

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|--|----------|---------|---------|----------|---------|----------|
| Actuarially determined contribution | \$ - | \$ - | \$ 155 | \$ 155 | \$ 233 | \$ 331 |
| Contributions in relation to the actuarially determined contribution | 100 | 50 | 234 | 255 | 322 | 948 |
| Contribution deficiency (excess) | \$ (100) | \$ (50) | \$ (79) | \$ (100) | \$ (89) | \$ (617) |

Covered employee payroll ¹

Contributions as a percentage of covered employee payroll ¹

¹ 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 (Closed) |
| Remaining amortization period | 17 years (as of July 1, 2022) |
| 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 | The trend rate for 2021 is 5.2%. The ultimate trend is 3.9%. |
| 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, 2022**

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---------|--------|-------|-------|-------|--------|
| Annual money-weighted rate of return, net of investment expense | -16.11% | 29.64% | 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, 2022**

SCHEDULE OF ADMINISTRATIVE EXPENSES

| | |
|-------------------|------------------|
| Professional Fees | <u>\$ 24,127</u> |
|-------------------|------------------|

SCHEDULE OF INVESTMENT EXPENSES

| | |
|---------------------|------------------|
| Investment Managers | <u>\$ 24,944</u> |
|---------------------|------------------|

SCHEDULE OF PROFESSIONAL FEES PAID TO CONSULTANTS

| <u>Type of Service</u> | <u>Consultant</u> | | |
|-------------------------------|---------------------------------|----|------------------|
| Actuary | Bolton Partners Inc | \$ | 18,240 |
| Auditing | SB & Company, LLC | | 4,591 |
| Administrative | Flexible Benefit Administrators | | 1,296 |
| Total Payments to Consultants | | | <u>\$ 24,127</u> |