

**CITY OF BOSTON, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND
Financial Statements
June 30, 2023
With Independent Auditor's Reports**

City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund
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June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Management Board of
City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund:

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Boston Other Post-Employment Benefit ("OPEB") Liability Trust Funds and the Boston Public Health Commission ("PHC") Other Post-Employment Benefit Liability Trust (collectively, "OPEB Trust Fund"), which comprise the statement of fiduciary net position as of June 30, 2023, the statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net positions of the City of Boston, Massachusetts OPEB Trust Fund and the Boston Public Health Commission OPEB Liability Trust Fund as of June 30, 2023, and the respective changes in fiduciary net position for the year 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 and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 OPEB Trust 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

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 control 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 OPEB Trust Fund's ability to continue as a going concern for twelve months beyond the financial statement date, 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 generally accepted auditing standards in the United States of America and *Government Auditing Standards* 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 control. 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 generally accepted auditing standards in the United States of America and *Government Auditing Standards*, 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 control 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 OPEB Trust Fund's internal control. 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 OPEB Trust Fund'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 control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023, on our consideration of the OPEB Trust Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the OPEB Trust Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OPEB Trust Fund's internal control over financial reporting and compliance.

Withum Smith & Brown, PC

September 29, 2023

CITY OF BOSTON, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2023 and 2022
(Unaudited)

The following discussion and analysis provides an overview of the financial position and activities of the City of Boston, Massachusetts Other Post-Employment Benefit Liability Trust Fund (the "OPEB Trust Fund") for the years ended June 30, 2023 and 2022. The purpose is to provide explanations into the information presented in the financial statements, notes to the financial statements, and required supplementary information.

The participating employers of the OPEB Trust Fund are the City of Boston and the Public Health Commission of the City of Boston.

The OPEB Trust Fund makes up the entirety of the City's Trust Investment Pool 8, which is held in a custody account with a financial institution.

Overview of the Financial Statements

The following discussion and analysis is intended to assist the reader in better understanding the purpose and meaning of each of the key components of the OPEB Trust Fund's financial statements, which comprise the following:

1. The Statement of Fiduciary Net Position presents the OPEB Trust Fund's assets and liabilities with the difference between assets and liabilities as fiduciary net position. Over time, increases or decreases in fiduciary net position may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.
2. The Statement of Changes in Fiduciary Net Position provides information on the changes in the OPEB Trust Fund's fiduciary net position during the current fiscal year. The additions are derived from net appreciation in fair value of investments and investment income. Deductions include distributions and professional fees and services.
3. The Notes to the Financial Statements are an essential part of the financial statements. They provide important background and detailed information about the OPEB Trust Fund, its investments, and the statements themselves.
4. The Required Supplementary Information (RSI) consists of information pertaining to the OPEB Trust Fund's annual money-weighted rate of return.

**CITY OF BOSTON, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND
Required Supplementary Information
Management's Discussion and Analysis
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(Unaudited)**

Financial Analysis

Tables 1 and 2 summarize the OPEB Trust Fund's financial position and results for the years 2023 and 2022. The changes from year to year are due to contributions from the City of Boston, benefit payments, changes in fair value of investments, and fees for professional services.

	<u>June 30</u>		Amount Increase (Decrease)	Percentage Change of Total
	<u>2023</u>	<u>2022</u>		
Asset				
Investments, at fair value	\$ 981,503,726	\$ 860,028,208	\$ 121,475,518	14.12%
Liability and Fiduciary Net Position				
Accrued expenses	-	312,197	(312,197)	-100.00%
Fiduciary net position restricted for post-employment benefits other than pensions	<u>\$ 981,503,726</u>	<u>\$ 859,716,011</u>	<u>\$ 121,787,715</u>	<u>14.17%</u>

	<u>June 30</u>		Amount Increase (Decrease)	Percentage Change of Total
	<u>2023</u>	<u>2022</u>		
Additions				
Contributions				
Employer's contributions	<u>\$ 174,842,169</u>	<u>\$ 179,222,496</u>	<u>\$ (4,380,327)</u>	<u>-2.44%</u>
Investment income				
Interest and dividends	\$ 13,936,101	\$ 11,584,742	\$ 2,351,359	20.30%
Net realized and unrealized gains (losses) on investments	67,325,002	(90,720,664)	158,045,666	-174.21%
Advisory and custodial fees	(1,723,388)	(1,861,906)	138,518	-7.44%
Net investment (loss) income	<u>79,537,715</u>	<u>(80,997,828)</u>	<u>160,535,543</u>	<u>-198.20%</u>
Total additions	254,379,884	98,224,668	156,155,216	158.98%
Deductions				
Benefit payments	\$ 132,592,169	\$ 136,972,496	\$ (4,380,327)	-3.20%
General administration	-	5,319	(5,319)	-100.00%
Total deductions	<u>132,592,169</u>	<u>136,977,815</u>	<u>(4,385,646)</u>	<u>-3.20%</u>
Net increase (decrease) in fiduciary net positions restricted for post-employment benefits other than pensions	121,787,715	(38,753,147)	160,540,862	-414.27%
Fiduciary net positions restricted for post-employment benefits other than pensions				
Beginning of year	<u>859,716,011</u>	<u>898,469,158</u>	<u>(38,753,147)</u>	<u>-4.31%</u>
End of year	<u>\$ 981,503,726</u>	<u>\$ 859,716,011</u>	<u>\$ 121,787,715</u>	<u>14.17%</u>

For further detail on the fair value of investments, refer to Note 4 of the financial statements.

**CITY OF BOSTON, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND
Required Supplementary Information
Management's Discussion and Analysis
June 30, 2023 and 2022
(Unaudited)**

Financial Highlights

- In 2023 and 2022, the OPEB Trust Fund earned investment income/loss, net of fees in the amount of \$79,537,715 and \$(80,997,828), respectively. This increase is attributed to increased portfolio performance and overall market increases.
- In 2023 and 2022, the OPEB Trust Fund had benefit payments to participating trusts of \$132,592,169 and \$136,972,496, respectively. These amounts were commensurate with actuarial valuations.
- In 2023 and 2022, the OPEB Trust Fund received employer contributions of \$174,842,169 and \$179,222,496, respectively.

Economic Factors

The economic factors that are of primary significance for the OPEB Trust Fund are the annual contributions made by the City of Boston and the Public Health Commission, the returns earned in the capital markets, and the change in benefit premiums. All of these factors play a part in determining the amount the City of Boston and the Public Health Commission will contribute in future years to fund the OPEB Trust Fund.

Requests for Information

This financial report is designed to provide those with an interest in the OPEB Trust Fund's finances with a general overview. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Senior Deputy Treasury of the City of Boston, City Hall, Room M-35, Boston, MA 02201.

City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund
Statement of Fiduciary Net Position
June 30, 2023

	<u>City of Boston</u>	<u>PHC</u>	<u>Total</u>
Asset			
Investments, at fair value	\$ <u>940,253,741</u>	\$ <u>41,249,985</u>	\$ <u>981,503,726</u>
Fiduciary net position restricted for			
post-employment benefits other than pensions	\$ <u>940,253,741</u>	\$ <u>41,249,985</u>	\$ <u>981,503,726</u>

The Notes to Financial Statements are an integral part of this statement.

City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2023

	<u>City of Boston</u>	<u>PHC</u>	<u>Total</u>
Additions			
Contributions			
Employers' contributions	\$ 167,967,375	\$ 6,874,794	\$ 174,842,169
Investment income (expenses)			
Interest and dividends	13,328,393	607,708	13,936,101
Net realized and unrealized gains on investments	64,406,817	2,918,185	67,325,002
Advisory and custodial fees	<u>(1,647,740)</u>	<u>(75,648)</u>	<u>(1,723,388)</u>
Net investment income	<u>76,087,470</u>	<u>3,450,245</u>	<u>79,537,715</u>
Total additions	244,054,845	10,325,039	254,379,884
Deduction			
Benefit payments	<u>127,967,372</u>	<u>4,624,797</u>	<u>132,592,169</u>
Changes in Fiduciary net position	116,087,473	5,700,242	121,787,715
Fiduciary net position restricted for post-employment benefits other than pensions			
Beginning of year	<u>824,166,268</u>	<u>35,549,743</u>	<u>859,716,011</u>
End of year	<u>\$ 940,253,741</u>	<u>\$ 41,249,985</u>	<u>\$ 981,503,726</u>

The Notes to Financial Statements are an integral part of this statement.

City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund
Notes to Financial Statements
June 30, 2023

1. PLAN

Plan Description

The City of Boston, Massachusetts Other Post-Employment Benefit Liability Trust Fund, (the "OPEB Trust Fund") was established in 2009 and acts as a common investment and administrative agent for the OPEB benefits plan provided through the City of Boston (the "City") OPEB plan trust (the "City OPEB Trust") and the Public Health Commission ("PHC") OPEB plan trust (the "PHC OPEB Trust").

The OPEB Trust Fund enables the City and PHC to maximize their return on investments by providing for a city-administered fund where monies can be co-mingled for investment purposes in order to realize the economies of large-scale investing and professional fund management. The purpose of the OPEB Trust Fund is to hold the investments for other post-employment benefits of the City OPEB Trust and PHC OPEB Trust. Each of the plan's assets are accounted for separately.

The City OPEB Trust and PHC OPEB Trust were established as fiduciary funds under Massachusetts General Laws and may only be used for the payment of benefits to the members of the respective Trust in accordance with the terms of that Trust. The City Trust and PHC Trust are reported separately in the statement of fiduciary net position and statement of changes in fiduciary net position. The plan is an agent multi-employer defined benefit OPEB plan that provides healthcare and insurance benefits, in accordance with state and City ordinance, to participating retirees and beneficiaries.

Plan Administration

Per the language of the OPEB Trust as authorized by M.G.L.c.32B, Section 20 and as accepted by the City, the Collector-Treasurer of the City, ex officio, is the custodian and also sole Trustee of the Trust and authority for the administration and investment of the Trust pursuant to Massachusetts law and applicable federal regulations. The Trustee is responsible for maintaining custody of the assets held in the Trust, and for investing those assets as allowed by the Trust. The OPEB Trust Fund is under the oversight of the Treasury Department of the City on behalf of the Trustee.

Plan Membership

The Plan members in the actuarial valuation as of June 30, 2021, rolled forward to June 30, 2023, consisted of:

	<u>City</u>	<u>PHC</u>
Retired, beneficiaries and dependents	15,073	314
Active members	<u>15,440</u>	<u>965</u>
Total	<u>30,513</u>	<u>1,279</u>

Eligibility

Members that are retired and receiving a pension from the Boston Retirement System consist of:

Members hired before April 2, 2012

Group 1 and Group 2 (including teachers)

- Retirees with at least 10 years of creditable service are eligible at age 55
- Retirees with at least 20 years of creditable service are eligible at any age

City of Boston, Massachusetts
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Group 4

- Retirees are eligible at age 55
- Retirees with at least 20 years of creditable service are eligible at any age

Members hired on or after April 2, 2012

Group 1 (including teachers)

- Retirees with at least 10 years of creditable service are eligible at age 60

Group 2

- Retirees with at least 10 years of creditable service are eligible at age 55

Group 4

- Retirees are eligible at age 55
- Retirees with at least 10 years of creditable service are eligible at age 50

Member Benefits

Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Care and Neighborhood Health Plan. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through supplemental plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Care and Tufts Health Plan. The City also pays 50% of the retiree life insurance premium and reimburses retirees 50% of their Medicare Part B Premium.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Management's Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements.

Investments

Investments in marketable securities are stated at fair value. Management categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. Dividends, interest, and net gains or losses on investments of endowments and similar funds are reported in the statement of changes in fiduciary net position. All income earned on investments is fully allocated to the City OPEB Trust and PHC OPEB Trust Funds.

City of Boston, Massachusetts
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June 30, 2023

Income Taxes

The OPEB Trust Fund exists as a component unit of a municipality, the City, and therefore no provision for federal income taxes was made in the accompanying financial statements. Under Internal Revenue Service and state regulations, the OPEB Trust Fund is not required to file income tax returns in any federal or state jurisdiction.

New Governmental Accounting Pronouncements

GASB Statement 100 – *Accounting Changes and Error Corrections – an amendment of GASB 62* is effective for reporting periods beginning after June 15, 2023. The objective of this statement is to provide consistency for changes in accounting principles, accounting estimates, and the reporting entity and corrections of errors.

Management has not completed its review of the requirements of these Statements and their applicability.

3. PLAN - ACTUARIAL ASSUMPTIONS

Actuarial Valuation

The most recent actuarial valuation was performed as of June 30, 2021, which is the measurement date for the year ended June 30, 2023. The actuarial method used was the entry age normal – level percentage of payroll. The actuarial assumptions included a 6.25% investment rate of return on assets invested by the OPEB Trust Fund (as of June 30, 2022). The discount rate is equal to the expected return on the assets. Salaries after the valuation date are projected to initially increase by 7.5% and decreasing over 20 years to an ultimate level of 4% for teachers and between 4.0% and 4.5% annually for non-teachers. Health care cost trend rates are projected to initially increase by 7.0% and decreasing by 0.25% annually to an ultimate level of 4.5% annually.

The projections of benefits for financial reporting purposes are based on the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between Plan members. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The market value method is used for the valuation of the assets.

Changes in the actuarial valuation of the Plan as of June 30, 2021 from the previous valuation (June 30, 2020) include the following:

- The discount rate was increased from 4.53% as of June 30, 2020 to 6.25% as of June 30, 2021.
- The mortality assumptions were updated to the Pub-2010 headcount-weighted mortality tables released by the Society of Actuaries in 2021.

For the year ended June 30, 2023, benefit payments as presented on the statement of changes in fiduciary net position were approximately \$127,967,000 and \$4,625,000 for the City OPEB Trust and PHC OPEB Trust, respectively.

City of Boston, Massachusetts
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Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The rates shown below are “net” and are applied to the net per capita costs. The trend shown for a particular year is the rate that is applied to that year’s cost to yield the next year’s projected cost.

<u>Year Ending June 30,</u>	<u>Non-Medicare</u>	<u>Medicare</u>	<u>Medicare Part B</u>
2024	6.75%	6.75%	4.50%
2025	6.50%	6.50%	4.50%
2026	6.25%	6.25%	4.50%
2027	6.00%	6.00%	4.50%
2028	5.75%	5.75%	4.50%
2029	5.50%	5.50%	4.50%
2030	5.25%	5.25%	4.50%
2031	5.00%	5.00%	4.50%
2032	4.75%	4.75%	4.50%
2033	4.50%	4.50%	4.50%
2034 and later	4.50%	4.50%	4.50%

4. INVESTMENTS

General

The OPEB Trust Fund maintains a pooled investment account as an agent for the City OPEB Trust and PHC OPEB Trust. The investments are carried at their fair market value, which is determined on the close of the last business day of trading just prior to or on the day of valuation. The calculation of net realized and unrealized gain or loss on sales of investments is determined on the average cost basis. This amount takes into account all changes in fair value that occurred during the year. The net investment income is allocated on a pro-rata basis based on the beginning net asset balances of the City OPEB Trust and the PHC OPEB Trust.

Investment Allocation

The City’s Treasury Department recommends asset allocations to the Trustee, the Collector Treasurer of the City. The approved asset allocation target ranges are shown below:

<u>Asset Class</u>	<u>Target Asset Mix Table</u>		
	<u>Minimum</u>		<u>Maximum</u>
	<u>weight</u>	<u>Target</u>	<u>weight</u>
	<u>%</u>	<u>%</u>	<u>%</u>
Equity	40	50	60
Fixed-Income	20	30	40
Real Assets	0	6	16
Multi Asset	4	14	24

Interest Rate Risk

Interest rate risk is the risk that changes in the interest rates of debt instruments will adversely affect the fair value of an investment. Through its investment policy, management of the OPEB Trust Fund manages exposure to fair value losses arising from increasing interest rates by limiting the average duration of an actively managed fixed-income portfolio to no more than seven years.

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Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is the Fund's policy that there shall be no specific limitation in regard to creditworthiness of securities, except the overall average quality of the fixed-income portfolio shall be "A" or better as rated by Standard & Poor's, or its equivalent. Investment managers may perform independent analysis of the creditworthiness of securities and their suitability as investments regardless of the classifications provided by ratings agencies. Investment managers may maintain reserve and cash equivalent investments with such securities carrying the equivalent of a Standard & Poor's A rating. Securities with a rating of below investment grade may comprise no more than 15%, at market, of the fixed-income portfolio. The City of Boston Trust Fund's investments in individual corporate debt instruments were rated on an average agency quality rating range of Aaa to unrated by Moody's Investors Services ("MDYS").

Investments of the OPEB Trust Fund are exposed to interest rate and market risk. They are stated at fair market value and consist of the following:

Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
Institutional and mutual funds	\$ 43,182,934	\$ 11,824,920	\$ 18,433,579	\$ 6,668,531	\$ 6,255,904
U.S. Treasury and agency securities	160,939,940	49,490,483	20,168,579	16,079,725	75,201,153
State and local municipal obligations	2,515,851	-	833,455	347,508	1,334,888
International government bonds	7,295,658	767,529	(912,254)	3,654,259	3,786,124
Corporate debt instruments	<u>122,225,209</u>	<u>9,113,738</u>	<u>56,638,876</u>	<u>28,538,227</u>	<u>27,934,368</u>
	336,159,592	\$ 71,196,670	\$ 95,162,235	\$ 55,288,250	\$ 114,512,437
<u>Other Investments:</u>					
Money market funds	10,112,172				
Equity securities	582,235,341				
Real estate funds	<u>52,996,621</u>				
Total	<u>\$ 981,503,726</u>				

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MDYS	Related Debt Instruments				
	Institutional and Mutual Funds	U.S. Treasury and Agency Securities	State and Local Municipal Obligations	International Government Bonds	Corporate Debt Instruments
Quality Ratings:					
Aaa	\$ -	\$ 160,843,080	\$ -	\$ 1,204,148	\$ 16,817,752
Aa1	-	96,860	-	-	54,282,822
Aa2	43,182,934	-	369,743	-	-
Aa3	-	-	276,607	-	63,747
A1	-	-	359,198	159,452	1,692,260
A2	-	-	-	210,718	717,548
A3	-	-	592,190	-	1,116,533
Baa1	-	-	26,660	-	1,799,286
Baa2	-	-	-	3,534,102	2,693,955
Baa3	-	-	-	(1,147,142)	2,958,879
Ba1	-	-	-	292,766	1,193,247
Ba2	-	-	253,085	181,273	720,894
Ba3	-	-	-	1,518,603	1,158,623
B1	-	-	-	179,502	24,268,861
B2	-	-	-	354,705	1,219,681
B3	-	-	-	194,047	597,955
Caa1	-	-	-	55,149	79,390
Caa2	-	-	-	-	13,774
Caa3	-	-	-	-	-
Ca	-	-	-	31,448	8,670,408
C	-	-	-	-	571,672
Unrated	-	-	638,368	526,887	1,587,922
Total fair value	\$ 43,182,934	\$ 160,939,940	\$ 2,515,851	\$ 7,295,658	\$ 122,225,209

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. As of June 30, 2023, the money market funds held by the OPEB Trust Fund's counterparty were uninsured and uncollateralized and were exposed to custodial credit risk. The OPEB Trust Fund's money market funds are subject to maturity, quality, and diversification requirements and invest in the highest credit rating, or the unrated equivalent.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the OPEB Trust Fund's investments with a single issuer. Management mitigates concentration of credit risk by limiting the percentage of the portfolio invested with any one issuer. With the exception of U.S. Treasury and U.S. Agency securities, management mitigates concentration of credit risk by limiting the purchase of securities of any one issuer to no more than 10% of the portfolio.

As of June 30, 2023, U.S. Treasury securities comprised 10.43% of the total portfolio. U.S. Agency securities comprised 5.89% of the total portfolio, including 2.92% from the Federal Home Loan Bank, 2.96% from the Corporation Federal National Mortgage Association, and 0.01% from the Government National Mortgage Association. No one security comprised more than 10% of the total investment portfolio.

City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund
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June 30, 2023

Fair Value Hierarchy

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that GASB Statements require or permit in the statement of fiduciary net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to assess at the measurement date; Level 2 inputs are other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly, or corroborated by, observable market data; Level 3 inputs are significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2023.

Money market funds: Valued at the daily closing price as reported by the fund. Money market funds held by the OPEB Trust Fund are open-end money market funds that are registered with the Securities and Exchange Commission. The money market funds held by the OPEB Trust Fund and classified as Level 1 are deemed to be actively traded.

Equity securities: Consist primarily of stocks traded on U.S. and non-U.S. security exchanges valued by the pricing method determined by investment managers at closing market prices on the valuation date. Stocks traded on active exchanges and valued at quoted market prices or documented trade history for identical assets are categorized within Level 1 of the fair value hierarchy. If market quotations are not readily available, the stocks may be valued using pricing models maximizing the use of observable inputs for similar securities and are classified as Level 2. If stocks are valued using assumptions from market participants, they are classified as level 3.

Real estate funds: Consist primarily of privately originated commercial mortgage loans secured by U.S. Commercial Real Estate. Market quotations are not available for these funds, which are valued using significant unobservable inputs.

Institutional and mutual funds: Valued at the daily closing price as reported by the fund. Institutional and mutual funds held by the OPEB Trust Fund are open-end funds that are registered with the Securities and Exchange Commission. The institutional and mutual funds held by the OPEB Trust Fund are deemed to be actively traded. If market quotations are not readily available, the funds are valued by the pricing method determined by investment managers which determines valuations using methods based upon market transactions for comparable securities.

U.S. Treasury and agency securities: Securities issued by the U.S. Government, its agencies, authorities, and instrumentalities are valued using quoted prices, documented trade history in the security, and pricing models maximizing the use of observable inputs determined by investment managers.

State and local municipal obligations: Valued by independent pricing services that determine fair valuations for normal, institutional-sized trading units of such securities using yield data relating to identical investments, or investments with similar characteristics, and other market inputs.

International government bonds: Bonds issued by foreign governments that are valued using quoted prices, documented history in the security, and pricing models maximizing the use of observable inputs determined by investment managers.

City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund
Notes to Financial Statements
June 30, 2023

Corporate debt instruments: Valued either by using pricing models maximizing the use of observable inputs for similar securities or valued by the investment manager.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

At June 30, 2023, the investments' fair value measurements consist of the following, measured on a recurring basis:

	Fair Value Measurements Using			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Investments				
Money market funds	\$ 10,112,172	\$ -	\$ -	\$ 10,112,172
Equity securities	581,752,153	483,188	-	582,235,341
Real estate funds	-	-	52,996,621	52,996,621
Institutional and mutual funds	43,182,934	-	-	43,182,934
U.S. Treasury and agency securities	84,507,007	76,432,933	-	160,939,940
State and local municipal obligations	-	2,515,851	-	2,515,851
International government bonds	2,567,322	4,728,336	-	7,295,658
Corporate debt instruments	<u>28,074,871</u>	<u>94,150,338</u>	<u>-</u>	<u>122,225,209</u>
Total investments	<u>\$ 750,196,459</u>	<u>\$ 178,310,646</u>	<u>\$ 52,996,621</u>	<u>\$ 981,503,726</u>

The following table sets forth a summary of changes in the fair value of the Level 3 investments for the year ended June 30, 2023:

Balance, beginning of year	\$ 50,524,210
Investment in real estate funds	255,397
Unrealized gain on investments	<u>2,217,014</u>
Balance, end of year	<u>\$ 52,996,621</u>

Foreign Currency Risk

The OPEB Trust Fund's investments in foreign currency-denominated bonds were rated Aaa to unrated by Moody's Investors Service. No investment comprised more than 10% of the total investment portfolio.

City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund
Notes to Financial Statements
June 30, 2023

At June 30, 2023, the investments' foreign currency risk is as follows:

<u>Currency</u>	<u>Maturity</u>	<u>Fair Value</u>
Mexican peso	various	\$ 1,803,301
Brazilian real	various	1,175,067
Australian Dollar	various	859,942
Romanian leu	various	366,620
South African Rand	1/31/2030	312,750
Indonesian rupiah	various	282,068
Dominican Peso	various	223,885
Mongolia Tugrik	various	220,939
West African CFA franc	various	219,567
Colombian Peso	3/15/2029	211,808
Paraguayan guarani	6/28/2033	209,910
Uzbekistani Sum	various	196,688
New Zealand Dollar	various	182,449
Moroccan Dirham	various	125,075
Indian Rupee	1/18/2033	107,435
Omani Rial	various	102,596
Philippine peso	various	93,599
Guatemalan Quetzal	10/7/2033	82,856
Macedonian denar	various	76,887
Serbia Dinar	9/23/2028	76,408
Angolan kwanza	various	67,391
Hungarian forint	various	57,764
Nigerian Naira	various	55,149
Costa Rican colon	various	52,706
Chilean peso	1/22/2051	34,121
Ghanaian cedi	2/11/2027	31,448
Bermudian Dollar	7/15/2032	31,008
Columbian Peso	various	22,027
West African CFA franc	1/22/2035	10,627
Saudi riyal	various	3,567
		<u>\$ 7,295,658</u>

5. CONTRIBUTIONS

Discretionary contributions are made to the City of Boston OPEB Trust and PHC OPEB Trust Funds based on annually budgeted amounts for the City and PHC. The City intends to contribute \$40 million per year to the City of Boston OPEB Trust until 2025, then \$100 million per year thereafter. PHC intends to contribute \$2.25 million per year to the PHC OPEB Trust. For the year ended June 30, 2023, the actual contributions were \$167,967,375 and \$6,874,794 for the City OPEB Trust and PHC OPEB Trust, respectively. Total contributions for the year ended June 30, 2023 are inclusive of actual benefits paid of \$127,967,375 and \$4,374,794 for the City OPEB Trust and PHC OPEB Trust, respectively.

City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund
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6. MONEY-WEIGHTED RATE OF RETURN

The money-weighted rate of return is calculated as the internal rate of return on plan investments, net of plan investment expense. A money-weighted rate of return expresses investment performance, net of plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money-weighted rate of return calculation are determined monthly.

The annual money-weighted rate of return, net of investment expense calculated in accordance with the provisions of GASB 74, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans*, was 9.2% for the year ended June 30, 2023.

7. INVESTMENT ADVISORY AND CUSTODIAL FEES

The OPEB Trust Fund receives investment management and advisory services under a management agreement that provides for fees to be paid quarterly. The fees are allocated based on a percentage of the fiduciary net position of the City OPEB Trust and PHC OPEB Trust.

SUPPLEMENTARY INFORMATION

City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund
Schedule of Investment Returns (Unaudited)
June 30, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Annual money-weighted rate of return, net of investment expense calculated in accordance with the provisions of GASB 74, <i>Financial Reporting for Post-employment Benefit Plans Other than Pension Plans</i> , for the City of Boston OPEB Trust Funds	9.20%	-8.49%	24.34%	3.45%	6.04%	5.59%

Note: This schedule is intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years in which information is available.

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

INDEPENDENT AUDITOR'S REPORT

To the Management Board of
City of Boston, Massachusetts
Other Post-Employment Benefit Liability Trust Fund:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the City of Boston Other Post-Employment Benefit Liability Trust and the Boston Public Health Commission Other Post-Employment Benefit Liability Trust, which comprise the statement of fiduciary net position and the statement of changes in fiduciary net position as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated September 29, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the OPEB Trust Fund's internal control over financial reporting ("internal control") as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the OPEB Trust Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the OPEB Trust Fund's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Withum Smith & Brown, PC

September 29, 2023