

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT  
BENEFIT LIABILITY TRUST FUND**

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**FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFIT  
LIABILITY TRUST FUND**

**Financial Statements**

**June 30, 2019**

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the City of Boston Other Post-Employment Benefit ("OPEB") Trust and the Boston Public Health Commission ("PHC") Other Post-Employment Benefit Trust as of June 30, 2019, the statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net positions of the City of Boston OPEB Trust and the Boston Public Health Commission OPEB Trust as of June 30, 2019, 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.

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that 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 December 11, 2019, 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 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.

*O'Connell and Duen, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

December 11, 2019

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFIT  
LIABILITY TRUST FUND**

**Statement of Fiduciary Net Position**

**June 30, 2019**

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT  
BENEFIT LIABILITY TRUST FUND**

**Statement of Fiduciary Net Position**

**June 30, 2019**

	<u>City of Boston</u>	<u>PHC</u>	<u>Total</u>
<b>Assets:</b>			
Investments, at fair value	\$ 594,426,773	\$ 24,222,748	\$ 618,649,521
Dividends and interest receivable	<u>9,664</u>	<u>394</u>	<u>10,058</u>
<b>Total Assets</b>	<b>594,436,437</b>	<b>24,223,142</b>	<b>618,659,579</b>
<b>Liability:</b>			
Accrued expenses - advisory and custodial fees	<u>187,484</u>	<u>7,640</u>	<u>195,124</u>
<b>Fiduciary net position restricted for postemployment benefits other than pensions</b>	<b><u>\$ 594,248,953</u></b>	<b><u>\$ 24,215,502</u></b>	<b><u>\$ 618,464,455</u></b>

*The accompanying notes are an integral part of the financial statements.*

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT  
BENEFIT LIABILITY TRUST FUND**

**Statement of Changes in Fiduciary Net Position**

**For the Year Ended June 30, 2019**

	<u>City of Boston</u>	<u>PHC</u>	<u>Total</u>
<b>Additions:</b>			
Contributions:			
Employers' contributions:	<u>\$ 176,017,934</u>	<u>\$ 4,652,398</u>	<u>\$ 180,670,332</u>
Investment Income (Expenses):			
Interest and dividends	8,217,120	334,458	8,551,578
Net realized and unrealized gains on investments	26,248,706	1,059,103	27,307,809
Advisory and custodial fees	<u>(842,078)</u>	<u>(34,572)</u>	<u>(876,650)</u>
Net investment income	<u>33,623,748</u>	<u>1,358,989</u>	<u>34,982,737</u>
<b>Total Additions</b>	<u>209,641,682</u>	<u>6,011,387</u>	<u>215,653,069</u>
<b>Deductions:</b>			
Benefit payments	136,017,934	2,402,398	138,420,332
General administration	<u>3,889</u>	<u>(95)</u>	<u>3,794</u>
<b>Total Deductions</b>	<u>136,021,823</u>	<u>2,402,303</u>	<u>138,424,126</u>
<b>Changes in Fiduciary Net Position</b>	<b>73,619,859</b>	<b>3,609,084</b>	<b>77,228,943</b>
<b>Fiduciary net position restricted for postemployment benefits other than pensions:</b>			
Beginning of Year	<u>520,629,094</u>	<u>20,606,418</u>	<u>541,235,512</u>
End of Year	<u>\$ 594,248,953</u>	<u>\$ 24,215,502</u>	<u>\$ 618,464,455</u>

*The accompanying notes are an integral part of the financial statements.*

# CITY OF BOSTON, MASSACHUSETTS OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND

## Notes to the Financial Statements

June 30, 2019

Note 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 and the Public Health Commission (“PHC”) OPEB plan 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 the post-employment benefits 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 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.

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFIT  
LIABILITY TRUST FUND**

**Notes to the Financial Statements - Continued**

**June 30, 2019**

Note 1 - **Plan - Continued**

*Plan Membership*

The plan members in the actuarial valuation date at June 30, 2017 consisted of:

	<u>City</u>	<u>PHC</u>
Retired, beneficiaries and dependents	14,863	251
Active members	14,186	904
Inactive Plan members entitled to but not yet receiving benefits	-	-
Total	29,049	1,155

*Eligibility*

Retired and receiving a pension from the Boston Retirement System

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

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 with less than 10 years of creditable service are eligible at age 55

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

# CITY OF BOSTON, MASSACHUSETTS OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND

## Notes to the Financial Statements - Continued

June 30, 2019

### Note 2 - Summary of Significant Accounting Policies

#### 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.

#### 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. The actual results could differ from the estimates and assumptions made in the preparation of the 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.

# CITY OF BOSTON, MASSACHUSETTS OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND

## Notes to the Financial Statements - Continued

June 30, 2019

Note 2 - **Summary of Significant Accounting Policies - Continued**

*Income Taxes*

All income earned on investments is fully allocated to the City OPEB Trust and PHC OPEB Trust funds. 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 84, *Fiduciary Activities* is effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Management has not completed its review of the requirements of this standard and its applicability.

Note 3 - **Plan - Actuarial Assumptions**

*Actuarial Valuation*

The most recent actuarial valuation was performed as of June 30, 2017, which is the valuation date. The actuarial method used was the entry age normal – level percentage of payroll. The actuarial assumptions included a 6.75% investment rate of return on assets invested by the OPEB Trust Fund (compared to a 7.00% investment rate of return in the previous valuation). The discount rate is equal to the expected return on the assets. The results of the June 30, 2017 actuarial valuation were used in the actuarially determined contributions for the fiscal years ended June 30, 2018 and 2019. Salaries are projected to increase between 4% and 7.5% annually, which includes inflation increases of 3.25%. Health care cost trend rates increase 4.5% to 7.0% 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.

# CITY OF BOSTON, MASSACHUSETTS OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND

## Notes to the Financial Statements - Continued

**June 30, 2019**

Note 3 - **Plan - Actuarial Assumptions**

*Actuarial Valuation - continued*

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

Changes in the actuarial valuation of the plan as of June 30, 2017 from the previous valuation (June 30, 2015) include the following:

- Per capita health care costs were updated to reflect recent experience
  - The trend assumptions were revised to better reflect future expectations
  - Discount rates for the City and PHC were changed to the expected return on assets of 6.75% for both the City and PHC. The discount rate in the previous valuation was 7.0% for the City and 6.75% for PHC.
- Impact of the excise tax on high cost health plans beginning in 2022 was recalculated
- Mortality assumptions were updated

For the year ended June 30, 2019 benefit payments as presented on the statement of changes in fiduciary net position were approximately \$136,018,000 and \$2,402,000 for the City OPEB Trust and PHC OPEB Trust, respectively.

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>
2018	7.00%	7.00%	4.50%
2019	6.50%	6.50%	4.50%
2020	6.00%	6.00%	4.50%
2021	5.50%	5.50%	4.50%
2022	5.00%	5.00%	4.50%
2023 & later	4.50%	4.50%	4.50%

# CITY OF BOSTON, MASSACHUSETTS OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND

## Notes to the Financial Statements - Continued

**June 30, 2019**

Note 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:

**Target Asset Mix Table**

<b><u>Asset Class</u></b>	<b><u>Minimum weight</u></b>	<b><u>Target</u></b>	<b><u>Maximum weight</u></b>
Equity	25 %	45 %	55 %
Fixed-Income	20 %	25 %	30 %
Balanced / Global			
Asset Allocation	18 %	22 %	26 %
Absolute Return	4 %	8 %	14 %

*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.

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFIT  
LIABILITY TRUST FUND**

**Notes to the Financial Statements - Continued**

**June 30, 2019**

Note 4 - **Investments - Continued**

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is management's policy that there shall be no specific limitation in regard to creditworthiness of securities, except the overall average quality of each 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 credit worthiness of securities and their suitability as investments regardless of the classifications provided by rating 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 any fixed-income portfolio. The investments in individual debt instruments were rated on a 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:

<b>Investment Type</b>	<b>Fair Value</b>	<b><u>Investment Maturities (in Years)</u></b>			
		<b>Less Than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>More Than 10</b>
Institutional and mutual funds	\$ 63,821,982	\$ 12,257,262	\$ 35,380,300	\$ 4,913,824	\$ 11,270,596
U.S. Treasury and agency securities	100,171,145	39,348,450	10,566,509	22,615,517	27,640,669
State and local municipal obligations	2,058,251	39,370	578,036	425,436	1,015,409
International government bonds	18,271,642	1,709,450	7,444,803	2,152,719	6,964,670
Corporate debt instruments	<u>98,225,308</u>	<u>17,149,921</u>	<u>40,806,160</u>	<u>17,595,829</u>	<u>22,673,398</u>
	282,548,328	\$ <u>70,504,453</u>	\$ <u>94,775,808</u>	\$ <u>47,703,325</u>	\$ <u>69,564,742</u>
<u>Other Investments:</u>					
Money market funds	17,411,433				
Equity securities	<u>318,689,760</u>				
Total	\$ <u>618,649,521</u>				

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFIT  
LIABILITY TRUST FUND**

**Notes to the Financial Statements - Continued**

**June 30, 2019**

Note 4 - **Investments - Continued**

*Credit Risk - continued*

	<b><u>Related Debt Instruments</u></b>				
<b>MDYS</b>	<b><u>Institutional and</u></b>	<b><u>U.S. Treasury and</u></b>	<b><u>State and local</u></b>	<b><u>International</u></b>	<b><u>Corporate</u></b>
<b>Quality Ratings:</b>	<b><u>mutual funds</u></b>	<b><u>agency securities</u></b>	<b><u>municipal obligations</u></b>	<b><u>government bonds</u></b>	<b><u>debt instruments</u></b>
<b>Aaa</b>	\$ 63,821,982	\$ 99,733,916	\$ -	\$ -	\$ 11,311,696
<b>Aa1</b>	-	-	-	-	2,507,437
<b>Aa2</b>	-	-	-	1,543,441	2,601,793
<b>Aa3</b>	-	-	700,869	122,684	10,489
<b>A1</b>	-	-	149,694	994,444	1,474,124
<b>A2</b>	-	-	54,154	447,423	4,293,771
<b>A3</b>	-	-	-	4,202,008	5,702,034
<b>Baa1</b>	-	-	-	367,175	4,241,765
<b>Baa2</b>	-	-	-	1,738,972	6,251,074
<b>Baa3</b>	-	-	678,237	973,130	6,736,237
<b>Ba1</b>	-	-	-	189,545	4,065,786
<b>Ba2</b>	-	-	-	950,146	1,259,004
<b>Ba3</b>	-	-	-	217,242	3,704,007
<b>B1</b>	-	-	-	278,648	15,682,130
<b>B2</b>	-	-	126,919	858,156	569,097
<b>B3</b>	-	-	-	375,655	211,409
<b>Caa1</b>	-	-	-	121,212	294,536
<b>Caa2</b>	-	-	-	-	68,390
<b>Caa3</b>	-	-	-	-	271,742
<b>Ca</b>	-	-	-	-	370,238
<b>C</b>	-	-	-	-	21,705
<b>Unrated</b>	-	437,229	348,378	4,891,761	26,576,844
<b>Total fair value</b>	<b>\$ <u>63,821,982</u></b>	<b>\$ <u>100,171,145</u></b>	<b>\$ <u>2,058,251</u></b>	<b>\$ <u>18,271,642</u></b>	<b>\$ <u>98,225,308</u></b>

# CITY OF BOSTON, MASSACHUSETTS OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND

## Notes to the Financial Statements - Continued

June 30, 2019

### Note 4 - Investments - Continued

#### 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, 2019, 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.

#### Foreign Currency Risk

The foreign government bonds are included in the balanced/global asset allocation, with a minimum allocation of 18% and a maximum of 26%.

#### 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 10.00% of the portfolio. As of June 30, 2019, U.S. Treasury securities comprised 8.83% of the total portfolio. U.S. Agency securities comprised 7.36% of the total portfolio, including the Federal Home Loan Bank 7.28% Corporation Federal National Mortgage Association 0.07%, and Government National Mortgage Association 0.01%. No one security compromised more than 10% of the total investment portfolio.

# CITY OF BOSTON, MASSACHUSETTS OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND

## Notes to the Financial Statements - Continued

June 30, 2019

### Note 4 - Investments - Continued

#### *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, 2019.

*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.

# CITY OF BOSTON, MASSACHUSETTS OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND

## Notes to the Financial Statements - Continued

June 30, 2019

### Note 4 - Investments - Continued

#### *Fair Value Hierarchy - continued*

*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.

*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.

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFIT  
LIABILITY TRUST FUND**

**Notes to the Financial Statements - Continued**

**June 30, 2019**

Note 4 - **Investments - Continued**

*Fair Value Hierarchy - continued*

At June 30, 2019, the investments' fair value measurements consist of the following, measured on a recurring basis:

	Fair Value Measurements Using			<u>Total</u>
	<u>Level 1</u> <u>inputs</u>	<u>Level 2</u> <u>inputs</u>	<u>Level 3</u> <u>inputs</u>	
Investments:				
Money market funds	\$ 17,411,433	\$ -	\$ -	\$ 17,411,433
Equity securities	318,347,735	342,025	-	318,689,760
Institutional and mutual funds	63,821,982	-	-	63,821,982
U.S. Treasury and agency securities	31,219,060	68,952,085	-	100,171,145
State and local municipal obligations	-	2,058,251	-	2,058,251
International government bonds	3,249,265	15,022,377	-	18,271,642
Corporate debt instruments	18,732,380	72,432,946	7,059,982	98,225,308
Total investments	\$ 452,781,855	\$ 158,807,684	\$ 7,059,982	\$ 618,649,521

The following table sets forth a summary of changes in the fair value of the Level 3 corporate bonds for the year ended June 30, 2019:

Balance, beginning of year	\$ -
Corporate bond fund suspension pending potential liquidation	7,059,982
Balance, end of year	\$ 7,059,982

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFIT  
LIABILITY TRUST FUND**

**Notes to the Financial Statements - Continued**

**June 30, 2019**

Note 4 - **Investments - Continued**

*Foreign Currency Risk*

The OPEB Trust Fund's investments in foreign currency-denominated bonds were rated Aa2 to Caa1 by Moody's Investors Service. No investment compromised more than 10% of the total investment portfolio.

At June 30, 2019, the investments' foreign currency risk is as follows:

<b><u>Bond Investment</u></b>	<b><u>Currency</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>
Argentina	Argentine peso	1/5/2028	\$ 110,966
Brazil	Brazilian Real	Various	806,801
Canada	Canadian Dollar	10/15/2019	29,091
Chile	Chilean Peso	3/1/2021	91,664
Colombia	Colombian Peso	Various	510,260
Costa Rica	Costa Rican Colon	6/1/2030	28,370
Czech Republic	Czech Crowns	Various	62,533
Dominican Republic	Dominican Peso	5/6/2021	136,085
Egypt	Egyptian Pound	Various	549,662
France	European Euro	6/20/2024	4,777,310
Georgia	Georgian Lari	4/12/2021	266,220
Ghana	Ghanaian cedi	Various	196,967
Honduras	Honduran Lempira	12/16/2020	164,585
Hungary	Hungarian Forint	9/1/2020	154,792
India	Indian Rupee	Various	147,416
Indonesia	Indonesian Rupiah	Various	743,019
Italy	European Euro	Various	79,449
Kazakhstan	Kazakhstani Tenge	11/9/2023	93,213
Kenya	Kenyan Shilling	Various	92,839
Japan	Yen	8/19/2019	885,816
Guatemala	Guatemalan Quetzal	6/6/2022	147,481

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT BENEFIT  
LIABILITY TRUST FUND**

**Notes to the Financial Statements - Continued**

**June 30, 2019**

Note 4 - **Investments - Continued**

*Foreign Currency Risk - continued*

<u>Bond Investment</u>	<u>Currency</u>	<u>Maturity</u>	<u>Fair Value</u>
Malaysia	Malaysian Ringgit	Various	300,551
Mexico	Peso	Various	4,022,200
Mongolia	Mongolia Tugrik	4/6/2021	116,903
Morocco	Moroccan Dirham	12/11/2022	42,064
Nigeria	Nigerian Naira	1/28/2021	140,218
Qatar	Qatari Riyal	3/14/2024	93,592
Republic of Armenia	Armenia Dram	9/30/2020	114,063
Republic of Belarus	Belarusian Ruble	2/28/2023	61,785
Republic of Guinea	Guinean Franc	10/31/2023	162,792
Peru	Peruvian Sol	Various	208,527
Philippines	Philippine Peso	Various	181,034
Poland	Polish Zloty	Various	482,783
Romania	Romanian Leu	4/3/1949	100,939
Russian Federation	Russian Ruble	Various	506,359
Senegal	West African CFA Franc	7/23/2024	66,790
Serbia	Serbian Dinar	2/25/2020	14,368
Sri Lanka	Sri Lankan Rupee	Various	131,782
South Africa	South African Rand	Various	696,359
Thailand	Thai Baht	Various	367,175
Turkey	Turkish Lira	Various	203,226
Ukraine	Ukrainian Hryvnia	9/1/2019	121,212
Uruguay	Uruguayan Peso	12/1/2028	59,212
Other	n/a	Various	3,169
			\$ 18,271,642

# CITY OF BOSTON, MASSACHUSETTS OTHER POST-EMPLOYMENT BENEFIT LIABILITY TRUST FUND

## Notes to the Financial Statements - Continued

June 30, 2019

Note 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, 2019 the actual contributions were \$40,000,000 and \$2,250,000 for the City OPEB Trust and PHC OPEB Trust, respectively. Total contributions for the year ended June 30, 2019 are inclusive of actual benefits paid of \$136,017,934 and \$2,402,398 for the City OPEB Trust and PHC OPEB Trust, respectively.

Note 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 Postemployment Benefit Plans Other than Pension Plans*, was 6.04%, 5.59%, and 11.65% for the years ended June 30, 2019, 2018, and 2017, respectively.

Note 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.

Note 8 - **Related Party Transactions**

As the administrator, the trustee is authorized to charge the OPEB Trust Fund for the services of certain personnel and an allocation of other administrative costs. There were no administrative fees charged by the City for the year ended June 30, 2019.

**INDEPENDENT AUDITORS' 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 AUDITORS' 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***

To the Management Board of  
City of Boston, Massachusetts  
Other Post-Employment Benefits 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 statement of the City of Boston Other Post-Employment Benefit Trust and the Boston Public Health Commission Other Post-Employment Benefit 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, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2019.

### **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") to determine 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.

### **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 determination of financial statement amounts. 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.

*O'Connell and Duen, P.C.*

**Certified Public Accountants  
Braintree, Massachusetts**

December 11, 2019

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF BOSTON, MASSACHUSETTS  
OTHER POST-EMPLOYMENT  
BENEFIT LIABILITY TRUST FUND**

**Schedule of Investment Returns**

**Information Presented for the Fiscal Years Ended**

	<u>2019</u>	<u>2018</u>	<u>2017</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 Trust and PHC Trust	<b>6.04%</b>	5.59%	11.65%

**Note:** This schedule is intended to present information for 10 years. Until a ten-year trend is compiled, information is presented for those years in which information is available.

*See Independent Auditors' Report.*