

MASSACHUSETTS HOUSING FINANCE AGENCY OPEB TRUST

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023

(With Report of the Independent Auditor)



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MASSACHUSETTS HOUSING FINANCE AGENCY OPEB TRUST
FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

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Independent Auditors' Report

OPEB Trust Committee Members
Massachusetts Housing Finance Agency OPEB Trust

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Massachusetts Housing Finance Agency OPEB Trust (the Trust), as of and for the year ended December 31, 2023, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Trust as of December 31, 2023, and the change 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 (GAAS). Our responsibilities under those standards are further described in the Auditors' 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

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 Trust'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.

Auditors' 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 auditors' 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 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 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 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 Trust'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 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 control 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 and certain other postemployment benefits information 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 GAAS, 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.



CliftonLarsonAllen LLP

Boston, Massachusetts

July 10, 2024

Massachusetts Housing Finance Agency OPEB Trust
Annual Financial Report

Prepared by the
Office of the Financial Director
Rachel C. Madden, Financial Director
Stephen E. Vickery, Comptroller

MANAGEMENT’S DISCUSSION AND ANALYSIS

Overview of the Financial Statements

The annual financial report of the Massachusetts Housing Finance Agency OPEB Trust (“Trust”) consists of four sections: (1) management’s discussion and analysis; (2) the financial statements; (3) notes to the financial statements; and (4) required supplementary information (“RSI”).

The financial statements, notes to the financial statements and RSI were prepared in conformity with the accounting principles generally accepted in the United States of America (“GAAP”) using the accounting standards promulgated by the Governmental Accounting Standards Board (“GASB”).

Management’s Discussion and Analysis

The following is an unaudited narrative overview of the results of the Trust’s operations for the fiscal year ended December 31, 2023 (“FY 2023”). Readers are encouraged to consider the information presented in this discussion and analysis in conjunction with the financial statements, notes to the financial statements and the RSI, all of which follow this narrative overview.

This discussion and analysis is designed (1) to assist the reader in focusing on significant financial matters and activities and (2) to identify any significant changes in the Trust’s financial status. The primary accounting policies followed by the Trust are outlined in Note B to the financial statements and are not repeated herein.

In April 2022, the Trust Committee voted to recommend that the Members of the Agency (the “Board”) change the fiscal year end of the Trust from June 30 to December 31. The Board approved the change in June 2022. As such, the financial information for the period ended December 31, 2022 represents the six-month period, July 1, 2022 through December 31, 2022 only. The FY 2023 financial information is presented for the full year.

As discussed in Note C to the financial statements, the Trust has contracted with Meketa Fiduciary Management, LLC (“Meketa”) to perform investment advisory and management services. Meketa is responsible for the day-to-day management and control of the investable assets of the Trust, in line with the Massachusetts Housing Finance Agency OPEB Trust’s Investment Policy (“Investment Policy”), as approved on June 23, 2022. Meketa is currently working to align the Trust’s investment portfolio with the Target Allocation included in the Investment Policy, including investing in three new asset classes (Private Equity, Real Estate, and Infrastructure).

The Financial Statements

The two basic financial statements provide different views of the Trust.

- The statement of fiduciary net position provides information about the Trust's assets, liabilities, deferred outflows and inflows of resources, if any, and the resulting fiduciary net position restricted for other postemployment benefits at December 31, 2023. It also provides information about the fair value and composition of fiduciary net position.
- The statement of changes in fiduciary net position includes information about the additions to, deductions from, and net increase (or decrease) in fiduciary net position for the fiscal year.

The Notes to Financial Statements

- The Notes to Financial Statements ("notes") provide information that is useful to the reader in understanding the Trust's financial statements, including a description of the Trust and the OPEB substantive plan it serves, as well as its accounting methods and policies.
- The notes include details of the Trust's investments and cash equivalents and their related risks.
- The notes also provide information on contributions to the Trust and its funded status, as well as information taken from the most recent actuarial valuation, including the methods and assumptions used.

Required Supplementary Information

The Required Supplementary Information ("RSI") is presented in conformity with GAAP using the accounting standards promulgated by GASB. The three schedules provide additional information about the Trust's funding progress, employer contributions, and investment returns.

Background

The Massachusetts Housing Finance Agency OPEB substantive plan (the plan understood by the employer and the plan participants – "substantive plan") is a single-employer defined benefit healthcare plan, which is open to all regular full-time and certain regular part-time employees of the Massachusetts Housing Finance Agency ("MassHousing" or the "Agency"). The substantive plan also provides \$5,000 of life insurance coverage to all eligible retirees and their beneficiaries. Benefit provisions and all other requirements are established by MassHousing and Chapter 32B of the General Laws of the Commonwealth of Massachusetts. Benefits vest after ten years of service, either at MassHousing alone or in combination with certain other Massachusetts public employers.

On June 26, 2008, MassHousing established the Trust as an irrevocable trust dedicated solely to administering the investments of and providing the benefits under the terms of the substantive plan. Provision is made in the Massachusetts retirement law for the remittance of monthly premiums for continued coverage in a group health and life insurance program at the time of retirement. Continuation of insurance coverage for retirees is an optional benefit provided by governmental employers.

A committee comprised of key staff members of the Agency (the "OPEB Committee"), one member designated by the Agency's Board and one member designated by the Agency's Executive Director administers the Trust.

Since inception of the Trust through December 31, 2023, the Agency has transferred \$41.4 million from its

Working Capital Fund to the Trust in order to meet the funding requirements of the plan.

As of December 31, 2023, the substantive plan was fully funded. The Total OPEB liability for benefits was \$44.5 million as of that date and the plan fiduciary net position was \$48.5 million, resulting in a Net OPEB asset of \$4.0 million and a funded ratio of 109.0 percent.

Financial Markets

The Trust relies on its ability to gain orderly access to financial markets to invest its assets. The Trust's assets and the long-term investment yield earned on investments are expected to be used to finance the payment of benefits. While the Trust believes that the financial impact of recent market events have not had a material adverse impact on its assets, no assurance can be given that future events will not have an adverse impact on the Trust's assets or its ability to access financial markets or to obtain financial products.

Summarized Financial Information – Statements of Fiduciary Net Position (in thousands of dollars)

The table below represents summarized comparative statements of fiduciary net position at December 31, 2023 and December 31, 2022, which were derived from the respective audited statements of fiduciary net position:

	Change from 12/31/2022			
	December 31, 2023	\$	%	December 31, 2022
Assets				
Cash and cash equivalents	\$ 1,265	\$ 1,177	1337.5%	\$ 88
Investments				
Bond mutual funds	3,293	(10,256)	-75.7%	13,549
Equity mutual funds	-	(29,152)	-100.0%	29,152
Bond common trust funds	8,737	8,737	100.0%	-
Equity common trust funds	33,440	33,440	100.0%	-
Private infrastructure fund	2,553	2,553	100.0%	-
Total investments	48,023	5,322	12.5%	42,701
Interest receivable	29	29	100.0%	-
Total assets	49,317	6,528	15.3%	42,789
Liabilities				
Accounts payable	808	62	8.3%	746
Fiduciary net position restricted for other postemployment benefits	<u>\$ 48,509</u>	<u>\$ 6,466</u>	<u>15.4%</u>	<u>\$ 42,043</u>

Discussion of Fiduciary Net Position

Assets

Cash and Cash Equivalents

The cash and cash equivalents balance was \$1.3 million at December 31, 2023 and \$88 thousand at December 31, 2022. The December 31, 2023 balances in cash and cash equivalents increased by \$1.2 million from December 31, 2022, which was the result of the Trust receiving \$1.7 million from MassHousing, \$935 thousand of sales of mutual fund investments, and \$742 thousand of net investment

income (excluding net appreciation), partially offset by \$1.5 million in expenses and fees and \$675 thousand of reinvested dividend income.

Investments

The Trust's investments as of December 31, 2023 totaled \$48.0 million and were invested in Vanguard Mutual Funds, State Street Global Advisor Funds, and a private infrastructure fund. The Trust's investments as of December 31, 2022 totaled \$42.7 million and were invested in Vanguard Mutual Funds. The \$5.3 million increase in investments from December 31, 2022 to December 31, 2023 was primarily the result of a \$3.1 million increase in the fair market value of investments, \$1.5 million of net purchases, and reinvestment of \$675 thousand of dividend income.

Liabilities

Accounts Payable

The accounts payable balances represent the following accrued expenses: healthcare premiums, investment fees, audit expenses, and insurance expenses.

Net Position Restricted for Other Postemployment Benefits

The Trust's fiduciary net position restricted for other postemployment benefits consisted of Vanguard Mutual Funds, State Street Global Advisor Funds, and a private infrastructure fund at December 31, 2023 with balances of \$48.5 million. As of December 31, 2022, the Trust's fiduciary net position restricted for other postemployment benefits consisted primarily of Vanguard Mutual Funds with balances of \$42.0 million. The \$6.5 million increase from December 31, 2022 to December 31, 2023 was primarily the result of a \$3.1 million increase in the fair market value of investments, a \$2.4 million net gain on the sale of investments, employer contributions (excluding the implicit subsidy) of \$1.7 million, and \$742 thousand of net investment income (excluding net appreciation), partially offset by \$1.5 million in payments of expenses and fees.

Summarized Financial Information – Statements of Changes in Fiduciary Net Position (in thousands of dollars)

The table below represents summarized comparative statements of changes in fiduciary net position for FY 2023 and the six-months ended December 31, 2022, which were derived from the respective audited statements of changes in net position:

	Change from 12/31/2022			
	12/31/2023 ⁽¹⁾	\$	%	12/31/2022 ⁽²⁾
Additions				
Contributions				
Employer contributions	\$ 2,017	\$ 1,200	146.9%	\$ 817
Net investment income				
Interest and dividends	742	(154)	-17.2%	896
Gain on the sale of investments	2,465	2,426	6220.5%	39
Net appreciation (depreciation) in fair value of investments	3,119	3,999	454.4%	(880)
Total investment income	6,326	6,271	11401.8%	55
Less investment expense	136	112	466.7%	24
Net investment income	6,190	6,159	19867.7%	31
Total additions	8,207	7,359	867.8%	848
Deductions				
Benefits	1,687	851	101.8%	836
Administrative expenses	54	17	45.9%	37
Total deductions	1,741	868	99.4%	873
Net Increase (Decrease)	6,466	6,491	25964.0%	(25)
Net position restricted for other postemployment benefits				
Beginning of fiscal period	42,043	(25)	-0.1%	42,068
End of fiscal period	\$ 48,509	\$ 6,466	15.4%	\$ 42,043

⁽¹⁾ Data represents the twelve-month period, January 1, 2023 through December 31, 2023.

⁽²⁾ Data represents the six-month period, July 1, 2022 through December 31, 2022.

Discussion of Changes in Fiduciary Net Position Restricted for Other Postemployment Benefits

The changes in fiduciary net position for FY 2023 and the six-months ended December 31, 2022 were the result of several major items that positively or negatively affected the change in net position restricted for other postemployment benefits, as described below:

Employer Contributions

The Actuarial Determined Contributions (“ADC”) for FY 2023 and for the six-months ended December 31, 2022 were the result of the actuarial accrued liability per the actuarial valuation dated January 1, 2023 and 2021, respectively. The ADC includes an implicit subsidy of \$283 thousand for FY 2023 and \$146 thousand for the six-months ended December 31, 2022, resulting from a uniform healthcare insurance premium rate being applied to both active and retired participants.

MassHousing is required to contribute approximately 80% of the basic cost of group health insurance for retirees (and, in some cases, dependents) who retired after January 31, 2010, 85% for those who retired after July 1, 1994 and before February 1, 2010 and 90% for those retirees who retired prior to July 2, 1994; the remaining cost is withheld from the retiree’s or beneficiary’s monthly pension benefit, which is remitted directly to the group insurance commission, and is not reflected in these financial statements. Active and Inactive Plan Members are not required to contribute to the plan.

Net Investment Income

Net Investment Income for FY 2023 totaled \$6.2 million, which includes a \$3.1 million net increase in the fair value of investments, a net gain on the sale of investments of \$2.5 million, interest and dividends of \$742 thousand, partially offset by investment fees of \$136 thousand.

Benefits Expense

Benefits expense for FY 2023 totaled \$1.7 million, which includes an implicit subsidy of \$283 thousand.

Administrative Expenses

Administrative expenses for FY 2023 totaled \$54 thousand, which is comprised of \$27 thousand of audit fees, \$18 thousand of actuarial fees, \$5 thousand of bank fees, and \$4 thousand of insurance expense. MassHousing does not allocate to the Trust the cost of any of the administrative services it provides to the Trust.

Request for Information

This financial report is designed to provide a general overview of the Trust’s finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

MassHousing
Office of the Financial Director
One Beacon Street
Boston, MA 02108-3106

Massachusetts Housing Finance Agency OPEB Trust

Statement of Fiduciary Net Position

December 31, 2023

In thousands of dollars

Assets

Cash and cash equivalents	\$	1,265
Investments		
Bond mutual funds		3,293
Bond common trust funds		8,737
Equity common trust funds		33,440
Private infrastructure fund		2,553
Total investments		<u>48,023</u>
Interest receivable		29
Total assets		<u><u>49,317</u></u>

Liabilities

Accounts payable - administrative expenses		83
Accounts payable - insurance premiums		<u>725</u>
Total Accounts Payable		<u>808</u>

Fiduciary net position restricted for other postemployment benefits

\$ 48,509

Massachusetts Housing Finance Agency OPEB Trust

Statement of Changes in Fiduciary Net Position

For the fiscal year ended December 31, 2023

In thousands of dollars

Additions

Contributions

Employer contributions	\$	2,017
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Net investment income

Interest and dividends	742
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Gain on the sale of investments	2,465
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Net appreciation in fair value of investments	3,119
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Total investment income	6,326
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Less investment expense	136
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Net investment income	6,190
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Total additions	8,207
-----------------	-------

Deductions

Benefits	1,687
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Administrative expenses	54
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Total deductions	1,741
------------------	-------

Net increase in fiduciary net position	6,466
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**Fiduciary net position restricted for
other postemployment benefits**

Beginning of fiscal year	42,043
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End of fiscal year	\$ 48,509
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Massachusetts Housing Finance Agency OPEB Trust

Notes to Financial Statements

December 31, 2023

Note A. Plan Description and Trust

Plan Administration

The Massachusetts Housing Finance Agency OPEB substantive plan (the plan understood by the employer and plan participants – “substantive plan”) is a single-employer defined benefit healthcare plan, which is open to all regular full-time and certain regular part-time employees of the Massachusetts Housing Finance Agency (“MassHousing” or the “Agency”). The substantive plan also provides \$5,000 of life insurance coverage to all eligible retirees and their beneficiaries. Benefit provisions and all other requirements are established by MassHousing and Chapter 32B of the General Laws of the Commonwealth of Massachusetts. Benefits vest after ten years of service either at MassHousing alone or in combination with certain other public employers. MassHousing is required to contribute approximately 80% of the basic cost of group health insurance for retirees (and, in some cases, dependents) who retired after January 31, 2010, 85% for those who retired after July 1, 1994 and before February 1, 2010 and 90% for those retirees who retired prior to July 2, 1994; the remaining cost is withheld from the retiree’s or beneficiary’s monthly pension benefit, which is remitted directly to the group insurance commission and is not reflected in these financial statements. Active and Inactive Plan Members are not required to contribute to the plan.

On June 26, 2008, MassHousing established the Massachusetts Housing Finance Agency OPEB Trust (Trust), an irrevocable trust dedicated solely to both administering the investments of and providing the benefits under the terms of the substantive plan. Provision is made in the Massachusetts retirement law for withholding monthly premiums for continued coverage in a group health and life insurance program at the time of retirement. Continuation of insurance coverage for retirees is an optional benefit provided by governmental employers. These financial statements reflect the operations of the Trust and do not reflect the financial position of MassHousing’s Retirement System.

A committee comprised of key staff members of the Agency (the “OPEB Committee”), one member designated by the Agency’s Board and one member designated by the Agency’s Executive Director, administers the Trust.

Plan Membership

Membership of the substantive plan consisted of the following at December 31, 2023:

Active plan members	330
Retired, Disabled, Survivors and Beneficiaries receiving benefits	198
Inactive plan members entitled to but not yet receiving benefit payments	30
Total	<u>558</u>

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
December 31, 2023

Note B. Summary of Significant Accounting Policies

Basis of Presentation

The Trust's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

The Trust accounts for and reports its activities by applying Standards of Governmental Accounting and Financial Reporting, as promulgated by the Governmental Accounting Standards Board ("GASB").

The Trust's financial statements have been prepared using the accrual basis of accounting in accordance with GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans". This statement establishes standards for the measurement, recognition, and display of the assets, liabilities, deferred outflows and inflows of resources, if any, and, where applicable, net position restricted for other postemployment benefits and changes in net position restricted for other postemployment benefits of the Trust and for related disclosures.

Employer contributions are recognized as received and as provided through MassHousing's annual budgeting process approved by MassHousing Members. Benefits, investment income, and administrative expenses are all recognized on the accrual basis. Administrative expenses are financed by investment income.

Cash and Cash Equivalents

The Trust held no cash deposits as of December 31, 2023.

The Trust's cash equivalents were \$1.3 million as of December 31, 2023. Cash equivalents include cash held in money market mutual funds. The Trust's cash equivalent is the JP Morgan US Government Money Market Fund.

Investments

Investments are reported at fair value.

Quoted market prices for bond mutual funds are used to determine the fair value at the close of each reporting period. The fair value for the private infrastructure fund and common trust funds have been determined by a third-party investment manager using the Net Asset Value (NAV) per share, or its equivalent on the Trust's ownership interest in partnership capital.

The Securities Investor Protection Corporation ("SIPC") is a nonprofit corporation established by the federal government that provides limited protection, in certain circumstances, for securities and cash held in a brokerage account. The coverage only applies when a firm shuts down because of financial circumstances and customer assets are missing or at risk because of the firm's failure. The Vanguard Group ("Vanguard") and State Street Global Advisors are members of SIPC. SIPC provides brokerage customers up to \$500,000 of coverage for cash and securities held by brokerage firms with cash coverage limited to \$250,000.

Massachusetts Housing Finance Agency OPEB Trust

Notes to Financial Statements

December 31, 2023

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America at times requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note C. Investment Policy, Cash Equivalents and Investments

The Trust has contracted with Meketa Fiduciary Management, LLC (“Meketa”) to perform investment advisory and management services. Meketa is responsible for the day-to-day management and control of the investable assets of the Trust, in line with the Massachusetts Housing Finance Agency OPEB Trust’s Investment Policy (“Investment Policy”), as approved on June 23, 2022.

The Investment Policy is designed to ensure the prudent management of funds, and the availability of operating funds when required, while earning a competitive return within the policy framework. The primary objectives of investment activity, in order of priority, are safety, liquidity, and yield.

The Investment Policy regarding the allocation of invested OPEB Trust assets is established and may be amended by the OPEB Committee by a majority of its members. It is the policy of the OPEB Committee to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. Based on these investment objectives, the OPEB Committee conducts an annual review of the asset allocations to obtain a targeted long-term rate of return.

The OPEB Committee reviewed and approved an updated target asset allocation. The following is the adopted targeted asset allocation, targeted range, and actual asset allocation, as of December 31, 2023:

Asset Class	Target Allocation	Target Ranges	Actual Allocation
Domestic Equity	30%	25% to 35%	34%
International Equity Developed	16%	11% to 21%	18%
International Equity Emerging	16%	11% to 21%	16%
Government Bonds	7%	2% to 12%	5%
TIPS	7%	2% to 12%	7%
Private Equity	6%	0% to 11%	0%
Real Estate	5%	0% to 10%	0%
Infrastructure	5%	0% to 10%	5%
High Yield Bonds	4%	1% to 9%	7%
Investment Grade Bonds	4%	1% to 9%	5%
Cash	0%	< 5%	3%
Total	100%		100%

Massachusetts Housing Finance Agency OPEB Trust

Notes to Financial Statements

December 31, 2023

As of December 31, 2023, the Trust had the following cash equivalents and investments, at fair value (in thousands of dollars):

Investment Type	Investment Maturities (Years)				
	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
<u>Debt Securities:</u>					
Money market mutual funds	\$ 1,265	\$ 1,265	\$ -	\$ -	\$ -
Bond mutual funds	3,293	-	3,286	7	-
Bond common trust funds	8,737	-	-	6,045	2,692
Total debt securities	\$ 13,295	\$ 1,265	\$ 3,286	\$ 6,052	\$ 2,692
<u>Equity Securities</u>					
Equity common trust funds	33,440				
<u>Other Investments:</u>					
Private infrastructure fund	2,553				
Total cash equivalents and investments	\$ 49,288				

Interest Rate Risk of Debt Securities

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. Investments in bonds are subject to the chance that bond prices will decline because of rising interest rates. Interest rate risk for cash equivalents (money market mutual funds) is minimized by investing in U.S. Government money market funds. Interest rate risk for other mutual funds is minimized by the selection of mutual funds that invest primarily in investment grade short-and intermediate-term bonds, whose prices are less sensitive to interest rate changes than are the prices of long-term bonds.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. Credit risk is minimized by the selection of mutual funds that purchase bonds that are issued by the U.S. Treasury, or are of investment grade quality or, if below investment grade quality, constitute a diverse range of bond investments thereby mitigating any significant credit risk.

As of December 31, 2023, the credit quality ratings of the Trust's debt securities were as follows (in thousands of dollars):

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAAm</u>	<u>Unrated</u>
Money market mutual funds	\$ 1,265	\$ 1,265	\$ -
Bond mutual funds	3,293	-	3,293
Bond common trust funds	8,737	-	8,737
Total debt securities	<u>\$ 13,295</u>	<u>\$ 1,265</u>	<u>\$ 12,030</u>

Massachusetts Housing Finance Agency OPEB Trust

Notes to Financial Statements

December 31, 2023

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the issuer or counterparty to a transaction, the Trust will not be able to recover the value of its investment that are in possession of an outside party. As of December 31, 2023, the Trust was not exposed to custodial credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single security. The Trust diversifies its investment portfolio to minimize the impact of potential losses from one type of security. As of December 31, 2023, the OPEB Trust was not exposed to concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Foreign currency risk is minimized by the selection of funds that employ an indexing investment approach designed to track the performance of the MSCI Emerging Markets Index and the MSCI EAFE Index. The Funds invest by sampling the index, meaning that it holds a broadly diversified collection of securities that, in the aggregate, approximates the index in terms of key characteristics. The Trust is exposed (indirectly) to foreign currency risk. As of December 31, 2023, the Trust had foreign equity funds of \$17.0 million, and a portion of the private infrastructure fund is invested in foreign based infrastructure assets.

Rate of Return

For FY 2023, the annual money-weighted rate of return on investments, net of expenses was 14.29 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The long-term expected real rate of return on the OPEB plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) over the next 20 years are developed for each major asset class. The ranges are combined to produce the long-term expected rate of return by weighting expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2023 are summarized in the following table:

Massachusetts Housing Finance Agency OPEB Trust
Notes to Financial Statements
December 31, 2023

<u>Asset Class</u>	<u>Long Term Expected Real Rate of Return (Geometric Average)</u>
Private Equity	8.2%
International Emerging Markets Equity Assets	5.9%
International Developed Markets Equity (Large) Assets	5.9%
Domestic Equity Assets	5.5%
Core Infrastructure	5.1%
Core Private Real Estate	5.1%
High Yield Bond Assets	3.9%
Long Term Government Bonds	2.1%
Investment Grade Bond Assets	1.9%
TIPS Assets	1.8%

Note D. Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into the following three levels:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities at the measurement date.

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are significant unobservable inputs.

The Trust has the following recurring fair value measurements as of December 31, 2023 (in thousands of dollars):

<u>Investment Type</u>	<u>Total Amount</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments Measured at Fair Value:				
Money market mutual funds	\$ 1,265	\$ 1,265	\$ -	\$ -
Bond mutual funds	3,293	3,293	-	-
Total Investments Measured at Fair Value	\$ 4,558	\$ 4,558	\$ -	\$ -
Investments Measured at NAV :				
Private infrastructure fund	\$ 2,553			
Bond common trust funds	8,737			
Equity common trust funds	33,440			
Total Investments Measured at NAV	\$ 44,730			
Total Investments	<u>\$ 49,288</u>			

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The valuation methods for investments measured at NAV per share as of December 31, 2023 (in thousands of dollars) are presented on the following table:

Investment Type	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period (Days)
Bond common trust funds	\$ 8,737	\$ -	daily	1
Equity common trust funds	33,440	-	daily	1
Private infrastructure fund	2,553	-	semi-annually	90
Total Investments Measured at NAV	<u>\$ 44,730</u>	<u>\$ -</u>		

Bond Common Trust Funds- These investment types are pooled investment vehicles managed collectively under a common investment strategy, often mirroring a specific investment index. The fair value measurement of this type has been determined using the NAV based on the Trust's interest, represented by investment units, in the underlying bonds held within the common trust fund.

Equity Common Trust Funds- These investment types are pooled investment vehicles managed collectively under a common investment strategy, often mirroring a specific investment index. The fair value measurement of this type has been determined using the NAV based on the Trust's interest, represented by investment units, in the underlying equity investments held within the common trust fund.

Private Infrastructure Fund- This investment type includes investments in one private equity fund that only invests in infrastructure. The fair value measurement of this type has been determined using the NAV per share of the Trust's ownership interest in partner's capital.

Note E. Employer Contributions

Contributions from MassHousing for healthcare benefits to retirees are provided through MassHousing's annual budgeting process as approved by MassHousing Members. Employer contributions for FY 2023 were \$2.0 million. The employer contributions included cash of \$1.7 million, plus an implicit subsidy of \$283 thousand, which is the result of applying a uniform healthcare premium rate to both active and retired participants.

During the six months ended June 30, 2023, MassHousing transferred \$671 thousand to the Trust.

On March 16, 2023, the MassHousing OPEB Committee voted to accept annual contributions to the Trust in July 2023 and July 2024, instead of quarterly contributions.

On June 13, 2023, the Members of MassHousing voted to transfer another \$1.1 million to the Trust for MassHousing's fiscal year ending June 30, 2024. MassHousing funded the contribution in July 2023.

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Note F. Net OPEB Asset

The components of the net OPEB asset as of December 31, 2023 were as follows:

Total OPEB Liability	\$ 44,500
Plan Fiduciary Net Position	<u>48,509</u>
Net OPEB (Asset)	<u><u>\$ (4,009)</u></u>

Plan Fiduciary Net Position as a percentage of the total OPEB Liability	109.0%
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Note G. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of January 1, 2023, rolled forward using update procedures to the December 31, 2023 measurement date, using the following assumptions, applied to all periods including the measurement period:

Salary Scale 3.50% overall payroll increase rate, including new entrants at 3.00% per year.

Interest Rate 7.00%, net of OPEB plan investment expense

Inflation CPIU-1 of 2.50% per year

Healthcare cost trend rate 6.4% to 8.7% initial graded down to 5% in 2032

Mortality rates:

Actives – The Pri.H-2012 Private Retirement Headcount-Weighted White Collar Mortality Tables, sex-distinct, for Employees projected using generational mortality and scale MP-2021.

Retirees – The Pri.H-2012 Private Retirement Headcount-Weighted White Collar Mortality Tables, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2021.

Disabled – The Pri.H-2012 Private Retirement Headcount-Weighted White Collar Mortality Tables, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2021. Set forward 2 years.

Survivors – The Pri.H-2012 Private Retirement Headcount-Weighted White Collar Mortality Tables, sex-distinct, for Contingent Survivors projected using generational mortality and scale MP-2021.

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Discount rate

The discount rate used to measure the total OPEB liability was 7.00 percent for the January 1, 2023 actuarial valuation. The projection of cash flows used to determine the discount rate assumed that MassHousing contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected real rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the net OPEB asset to changes in the discount rate.

The following presents the Agency's net OPEB asset at December 31, 2023 calculated using the discount rate of 7.00 percent, as well as what the Agency's net OPEB (asset)/liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate (in thousands of dollars):

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB (asset)/liability \$	2,057	(4,009)	(8,983)

Sensitivity of the net OPEB asset to changes in healthcare cost trend rates.

The following presents the Agency's net OPEB asset at December 31, 2023 calculated using the healthcare cost trend rates that are 1-percentage-point lower (7.7 percent initial graded down to 4 percent in 2032) or 1-percentage-point higher (9.7 percent initial graded down to 6 percent in 2032) than the current healthcare trend rates (in thousands of dollars):

	1% decrease (5.4%-7.7% initial graded down to 4% in 2032)	Healthcare Cost Trend Rates (6.4%-8.7% initial graded down to 5% in 2032)	1% increase (7.4%-9.7% initial graded down to 6% in 2032)
Net OPEB (asset)/liability \$	(9,768)	(4,009)	3,151

Note H. Commitments and Contingencies

On December 22, 2023, the Trust entered into a limited partnership agreement with a private equity fund (the "PE Fund") with a capital commitment of \$1.5 million. The unfunded commitment at December 31, 2023 was \$1.5 million.

Massachusetts Housing Finance Agency OPEB Trust
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Note I. **Subsequent Events**

On January 25, 2024, the Trust contributed \$450,000 to the PE Fund, in accordance with a capital call.

On March 28, 2024, the Trust entered into a limited partnership agreement with two PE Funds with a total capital commitment of \$2 million.

On June 11, 2024, the Members of MassHousing voted to transfer the annual contribution amount of \$1.1 million to the Trust for MassHousing's fiscal year ending June 30, 2025. MassHousing funded the contribution in July 2024.

On June 14, 2024, the Trust contributed an additional \$162,157 to the PE Fund, in accordance with a capital call.

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Schedule of Changes in the Agency's Net OPEB (Asset) / Liability and Related Ratios ⁽¹⁾
(Dollar amounts in thousands)

	12/31/2023	12/31/2022 ⁽²⁾	6/30/2022	6/30/2021 ⁽³⁾	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Total OPEB Liability								
Service Cost	\$ 943	\$ 535	\$ 1,039	\$ 767	\$ 1,137	\$ 1,294	\$ 1,430	\$ 1,379
Interest	2,972	1,897	3,588	3,046	4,232	3,925	3,670	3,402
Differences between expected and actual experience	(78)	(7,448)	-	(10,923)	(534)	(326)	-	-
Changes of assumptions	-	(5,875)	-	(745)	(1,044)	929	-	-
Benefit payments	(1,688)	(836)	(1,542)	(1,517)	(1,327)	(1,531)	(1,175)	(1,264)
Net change in total OPEB liability	2,149	(11,727)	3,085	(9,372)	2,464	4,291	3,925	3,517
Total OPEB liability - beginning	42,351	54,078	50,993	60,365	57,901	53,610	49,685	46,168
Total OPEB liability - ending (a)	\$ 44,500	\$ 42,351	\$ 54,078	\$ 50,993	\$ 60,365	\$ 57,901	\$ 53,610	\$ 49,685
Plan fiduciary net position								
Contributions - employer	\$ 2,017	\$ 817	\$ 1,535	\$ 3,597	\$ 3,421	\$ 3,459	\$ 3,115	\$ 3,054
Net Investment Income	6,190	31	(7,838)	10,260	1,195	1,970	1,614	2,734
Benefit payments	(1,687)	(836)	(1,542)	(1,517)	(1,327)	(1,531)	(1,175)	(1,395)
Administrative expenses	(54)	(37)	(35)	(43)	(27)	(40)	(31)	(28)
Net change in plan fiduciary net position	6,466	(25)	(7,880)	12,297	3,262	3,858	3,523	4,365
Plan fiduciary net position - beginning	42,043	42,068	49,948	37,651	34,389	30,531	27,008	22,643
Plan fiduciary net position - ending (b)	\$ 48,509	\$ 42,043	\$ 42,068	\$ 49,948	\$ 37,651	\$ 34,389	\$ 30,531	\$ 27,008
Net OPEB (Asset) / Liability - ending (a)-(b)	\$ (4,009)	\$ 308	\$ 12,010	\$ 1,045	\$ 22,714	\$ 23,512	\$ 23,079	\$ 22,677
Plan fiduciary net position as a percentage of total OPEB liability	109.0%	99.3%	77.8%	98.0%	62.4%	59.4%	57.0%	54.4%

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

⁽²⁾ Data represents the six-month period, July 1, 2022 through December 31, 2022.

⁽³⁾ In FY 2021, the Agency identified an error in the FY 2019 and FY 2020 actuarial calculation of the Net OPEB Liability, which resulted in changes in the Schedule of Changes in the Agency's Net OPEB Liability and related ratios. Due to the overall immaterial impact to the Agency's financial statements, the cumulative effect is reflected in the FY 2021 reporting period.

See accompanying independent auditors' report.

Massachusetts Housing Finance Agency OPEB Trust
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Schedule of Agency Contributions ⁽¹⁾
(Dollar amounts in thousands)

	12/31/2023	12/31/2022 ⁽²⁾	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Actuarial Determined Contribution	\$ 2,017	\$ 817	\$ 1,535	\$ 3,597	\$ 3,421	\$ 3,459	\$ 3,115	\$ 3,054
Contributions in relation to the								
Actuarially Determined Contribution	2,017	817	1,535	3,597	3,421	3,459	3,115	3,054
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Notes to Schedule

Actuarially determined contributions consist of:

	12/31/2023	12/31/2022 ⁽²⁾	6/30/2022	6/30/2021	6/30/2020	6/30/2019	6/30/2018	6/30/2017
Cash Contribution	\$ 1,734	\$ 671	\$ 1,282	\$ 3,300	\$ 3,160	\$ 2,897	\$ 2,901	\$ 2,597
Implicit Subsidy	283	146	253	297	261	562	214	457
Actuarial Determined Contribution	\$ 2,017	\$ 817	\$ 1,535	\$ 3,597	\$ 3,421	\$ 3,459	\$ 3,115	\$ 3,054

Methods and assumption used to determine contribution rates:

Actuarial cost method	Projected Unit Credit Level Dollar cost method
Amortization method	Level percentage of pay, closed basis
Asset valuation method	Market value
Healthcare cost trend rates	7.1% to 9.0% initial graded down to 5% in 2040
Interest and Discount rate	7.00%, net of OPEB plan investment expense
Retirement Age	Based on Tier classification, gender and hire dates.
Mortality	Pri.H-2012 Private Retirement Headcount-Weighted White Collar Mortality Tables, sex-distinct projected using generational mortality and scale MP-2021.

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

⁽²⁾ Data represents the six-month period, July 1, 2022 through December 31, 2022.

See accompanying independent auditors' report.

Massachusetts Housing Finance Agency OPEB Trust
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Schedule of Investment Returns ⁽¹⁾

	<u>12/31/2023</u>	<u>12/31/2022 ⁽²⁾</u>	<u>6/30/2022</u>	<u>6/30/2021</u>	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2017</u>
Annual money-weighted rate of return, net of investment expense	14.29%	0.08%	-15.40%	25.86%	3.28%	6.09%	7.52%	9.78%

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

⁽²⁾ Data represents the six-month period, July 1, 2022 through December 31, 2022.

See accompanying independent auditors' report.

