CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the
City of Cambridge, Massachusetts)

Report on Examination of
Basic Financial Statements
And Additional Information
Year Ended December 31, 2017

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended December 31, 2017

CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Cambridge, Massachusetts)

TABLE OF CONTENTS
DECEMBER 31, 2017

ROSELLI, CLARK & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park
Suite 4900
Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cambridge Redevelopment Authority
Cambridge, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the activities of the Cambridge Redevelopment Authority (the "CRA"), a component unit of the City of Cambridge, Massachusetts, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the CRA's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the activities of the CRA as of December 31, 2017, and the respective changes in financial position and, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standards

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans.* The CRA implemented both these standards during the year ended December 31, 2017. GASB Statement No. 75 was implemented one year earlier than its required implementation date. Our opinion was not modified with respect to this.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the CRA's proportionate share of the net pension liability and schedule of the CRA's contributions to pension plan. the schedule of changes in net OPEB liability and related ratios, the schedule of contributions – OPEB, and schedule of investment returns – OPEB, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CRA's basic financial statements. The supplementary schedules section as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Expense Allocation – Project Costs Schedule is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018 on our consideration of the CRA'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 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 CRA'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 consideration of the CRA's internal control over financial reporting and compliance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Cambridge Redevelopment Authority's (the "CRA") financial performance provides an overview of the CRA's financial activities for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

Financial Highlights

- The assets and deferred outflows of financial resources of the CRA exceeded its liabilities and deferred inflows of financial resources at the close of the most recent fiscal year by nearly $34.6 million *(total net position)*. Of this amount, almost $18.7 million is unrestricted and may be used to meet the CRA's ongoing obligations. Because of a significant inflow of available funds from the sale of development rights and outside contributions, the CRA Board of Directors has dedicated, in aggregate, $14.9 million of net position for use on the KSTEP and Foundry project programs. Within these two programs, investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease in investment assets and investment income.

- The CRA's assets are primarily comprised of cash and investments of over $33.9 million, or approximately 94.9% of total assets. Other assets individually are not significant.

- The CRA's total net position increased significantly (almost $25.4 million) over the prior year. This was consistent with management's expectations since the sale of development rights is based upon pre-existing formulas and are triggered by observable and verifiable stages of a building's development progress.

- The CRA implemented GASB 74 and early implemented GASB 75 which both relate to the accounting and reporting of other postemployment benefit (OPEB) liabilities and activities. These standards replaced the previous accounting and reporting requirements of OPEB under GASB 43 and 45. As a result, a restatement of beginning net position was required to reflect the effects of this implementation that can be reviewed in detail in Note M. In 2017, the CRA made its initial contribution into an authorized OPEB Trust Fund; the assets and net position of this Trust is reflected independently within this report.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the CRA's basic financial statements. This report consists of: the basic financial statements, notes to the financial statements, and various other disclosures of supplementary information. The CRA is a component unit of the City of Cambridge and is a self-supporting entity that follows enterprise fund reporting.

Financial Statements – These statements are presented in a manner similar to a private business, such as a real estate development company. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the CRA.

The *statement of net position* presents information on all of the CRA's assets and deferred outflows of financial resources and its liabilities and deferred inflows of financial resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial condition of the CRA is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents information showing how the CRA's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected receivables and earned but unused vacation leave.) The *statement of cash flows* presents information on the CRA's cash inflows, outflows and changes in cash resulting from operations, investments and financing activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the CRA's proportionate share of net pension liability, contributions to pension plan, schedule of changes in net OPEB liability and related ratios, schedule of contributions – OPEB, and schedule of investment returns – OPEB.

Furthermore, it includes supplementary information presented by the CRA relative to the allocation of costs by each current year project program.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the CRA's financial condition. In the case of the CRA, assets and deferred outflows of financial resources exceeded liabilities and deferred inflows of financial resources by nearly $34.6 million at the close of the most recent fiscal year. This was an increase of about $25.3 million (73.2%) from the preceding year.

The condensed statement of net position is as follows:

	December 31, 2017	December 31, 2016
Assets		
Current and other assets	$ 34,771,320	$ 9,316,965
Capital assets, net	989,947	1,024,474
Total assets	35,761,267	10,341,439
Deferred Outflows of Financial Resources	204,870	178,139
Liabilities		
Long-term liabilities	1,206,074	1,106,962
Other liabilities	61,643	96,065
Total liabilities	1,267,717	1,203,027
Deferred Inflows of Financial Resources	123,541	41,935
Net Position		
Net investment in capital assets	989,947	1,024,474
Restricted for programs	14,915,439	-
Unrestricted	18,669,493	8,250,142
Net Position	$ 34,574,879	$ 9,274,616

The largest portion of the CRA's net position, almost $18.7 million, consist of unrestricted funds that are available for spending on future development projects and administrative costs as determined and directed by the CRA's Board of Directors which is the CRAs legislative branch.

Net position is comprised of restricted program funds reported at fair value totaling $14.9 million (allocated to the KSTEP and Foundry project programs in the amounts of approximately $6.0 million and $8.9 million, respectively); as well as a portion of the CRA's net position (approximately $1.0 million) that is reflected as its investment in capital assets (e.g. land and improvements, and machinery and equipment). Presently, there is no related outstanding debt used to acquire those capital assets. The CRA uses these capital assets to provide services to the citizenry of the City of Cambridge; consequently, these assets may not be sold to provide resources for future operations.

Nearly the entire net position consists of cash, cash equivalents, and investments.

The condensed statement of changes in net position is as follows:

	Year Ended December 31, 2017	2016
Revenues		
Program revenues:		
Sale of development rights	$ 23,152,383	$ 899,418
Grants, contributions and donations	3,000,000	-
Investment income and other	498,351	134,013
Total revenues	26,650,734	1,045,306
Expenses		
Administrative	537,316	607,133
Professional services	23,412	24,521
Project consulting	666,807	580,562
Property maintenance	1,290	11,381
Disposition of property	-	59,928
Depreciation	34,527	34,527
Total expenses	1,263,352	1,318,052
Change in net position	25,387,382	(272,746)
Net position - beginning of year	9,274,616	9,547,362
Prior period adjustment (see Note M)	(87,119)	-
Net position, beginning of year, as restated	9,187,497	9,547,362
Net position - end of year	$ 34,574,879	$ 9,274,616

The CRA's total net position at December 31, 2017, increased significantly over the prior year. Operating revenues of nearly $26.2 million consisted primarily of the sale of development rights totaling over $23.1 million and outside contributions for program funding of $3.0 million. This represented an increase of nearly $25.3 million in operating revenues over the prior year.

Nonoperating revenues totaled almost $0.5 million in 2017 and consisted entirely of net investment income earned on the CRA's investments; this increase over the previous year's amount of $0.1 million was a direct result of the influx of excess investable monetary resources from the current year revenues noted above.

Operating expenses were consistent with management's expectations and the prior year as both years approximated $1.3 million. The allocation of expenses amongst individual categories shifted as compared to the prior year but these changes were not significant as a whole.

Capital Asset and Debt Administration

The CRA's investment in capital assets as of December 31, 2017, approached $1.0 million (net of any accumulated depreciation). This investment in capital assets includes land, improvements to the land, and machinery and equipment. No new capital assets were added for 2017 and the change in net value relates solely to the recognition of current year depreciation.

The CRA maintains development properties held for sale that it classifies as long-term assets since they are not expected to be liquidated within twelve months of year-end.

As of December 31, 2017, the CRA did not have any outstanding debt.

Economic Factors and Next Year Activity

The CRA will continue to manage and assist with the development of the Kendall Square Urban Renewal Plan (KSURP) as provided within its authority and mandate. With the significant inflow of available financial resources from the sale of development rights in 2017 and even more such revenue anticipated in the coming years relative to ongoing building construction in the KSURP area, the CRA is aggressively evaluating how it may utilize its finances towards new and expanding programmatic endeavors.

This evaluation of need may also result in the CRA exploring activities beyond the existing KSURP boundaries to other areas of the City where redevelopment projects are under consideration.

However, the CRA is looking for measured and planned growth of its activities since the major revenue stream into the CRA cannot be annually relied upon for consistency given the cyclical nature of development and construction activities upon which the sale of development rights is based.

Accordingly, a portion of the CRA's strategy is to ensure that adequate operational funds will continue to exist in the long-term to cover employee and administrative overhead costs while pursuing endeavors in-line with stated goals and objectives.

Request for Information

This financial report is designed to provide a general overview of the CRA's finances for all those with an interest in the CRA's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Thomas Evans, Executive Director, Cambridge Redevelopment Authority, 255 Main Street, 8th Floor, Cambridge, Massachusetts 02142.

CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Cambridge, Massachusetts)

STATEMENT OF NET POSITION
DECEMBER 31, 2017

Assets	
Current assets:	
Cash and cash equivalents	$ 2,635,426
Investments	31,312,404
Accounts receivable	35,088
Other assets	29,388
Total current assets	34,012,306
Noncurrent assets:	
Notes receivable	540,000
Development projects held for sale	219,014
Capital assets, not being depreciated	23,184
Capital assets, net of accumulated depreciation	966,763
Total noncurrent assets	1,748,961
Total Assets	35,761,267
Deferred Outflows of Financial Resources	
Pensions	204,172
Other postemployment benefits	698
Total Deferred Outflows of Financial Resources	204,870
Liabilities	
Current liabilities:	
Accounts payable	51,668
Compensated absences	9,975
Total current liabilities	61,643
Noncurrent liabilities:	
Compensated absences	29,923
Net pension liability	290,744
Net other postemployment benefits liability	885,407
Total noncurrent liabilities	1,206,074
Total Liabilities	1,267,717
Deferred Inflows of Financial Resources	
Pensions	108,422
Other postemployment benefits	15,119
Total Deferred Inflows of Financial Resources	123,541
Net Position	
Net investment in capital assets	989,947
Restricted for programs - KSTEP	6,039,657
Restricted for programs - Foundry	8,875,782
Unrestricted	18,669,493
Total Net Position	$ 34,574,879

See accompanying notes to basic financial statements.

CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Cambridge, Massachusetts)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2017

Operating Revenues		
Sale of development rights	$	23,043,079
Contributions and donations		3,000,000
Rental income		106,327
Other income		2,977
Total Operating Revenues		26,152,383
Operating Expenses		
Administrative		537,316
Professional services		23,412
Project consulting		666,807
Property management		1,290
Depreciation		34,527
Total Operating Expenses		1,263,352
Operating Income		24,889,031
Nonoperating Revenues (Expenses)		
Investment income		498,351
Total Nonoperating Revenues		498,351
Change in Net Position		25,387,382
Net Position - Beginning of year, as restated (see Note M)		9,187,497
Net Position - End of year	$	34,574,879

See accompanying notes to basic financial statements.

CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Cambridge, Massachusetts)

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

Cash Flows from Operating Activities		
Sale of development rights	$	23,043,079
Contributions and donations		3,000,000
Rental income and other receipts		74,610
Project loans issued to other parties		(540,000)
Payments to vendors		(628,344)
Payments for wages and benefits		(562,539)
Net Cash Provided by Operating Activities		24,386,806
Cash Flows from Investing Activities		
Investment of operating cash, net		(25,454,456)
Investment income		498,351
Net Cash Used in Investing Activities		(24,956,105)
Net Change in Cash and Cash Equivalents		(569,299)
Cash and Cash Equivalents		
Beginning of year		3,204,725
End of year	$	2,635,426

Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities		
Operating income	$	24,889,031
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Depreciation		34,527
Changes in assets, deferred outflows, liabilities and deferred inflows:		
Accounts receivable		(34,694)
Note receivable		(540,000)
Other assets		5,496
Deferred outflows of resources		(26,731)
Accounts payable and accrued expenses		(37,144)
Deferred compensation		10,886
Net pension benefits		6,674
Other postemployment benefits		(2,845)
Deferred inflows of resources		81,606
Net Cash Provided by Operating Activities	$	24,386,806

See accompanying notes to basic financial statements.

CAMBRIDGE REDEVLOPMENT AUTHORITY
(A Component Unit of the City of Cambridge Massachusetts)

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2017

	Other Postemployment Benefits Trust (OPEB) Fund
Assets	
Cash and cash equivalents	$ 5,894
Investments	9,616
Total Assets	15,510
Liabilities	
	-
Total Liabilities	-
Net Position	
Held in trust for other postemployment benefits	15,510
Total Net Position	$ 15,510

See accompanying notes to basic financial statements.

CAMBRIDGE REDEVLOPMENT AUTHORITY
(A Component Unit of the City of Cambridge Massachusetts)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2017

	Other Postemployment Benefits Trust (OPEB) Fund
Additions	
Contributions:	
Employer	$ 80,619
Total contributions	80,619
Investment income:	
Interest and dividends	1,510
Total Additions	82,129
Deductions	
Benefits paid	66,619
Total Deductions	66,619
Change in Net Position	15,510
Net Position - Beginning of Year	-
Net Position - End of Year	$ 15,510

See accompanying notes to basic financial statements.

Note A – Reporting Entity

The Cambridge Redevelopment Authority was established in 1955 pursuant to Chapter 121B of the Massachusetts General Laws, as amended, to administer and plan urban renewal projects and other community development projects within the City of Cambridge, Massachusetts (the "City"). The CRA was issued a Certificate of Organization by the Secretary of the Commonwealth of Massachusetts on November 20, 1956. The CRA is governed by a five-member board of directors, one of whom is appointed by the Governor of the Commonwealth of Massachusetts and the remaining four members by the Cambridge City Manager and confirmed by the Cambridge City Council.

The CRA is a component unit of the City. The City's audited financial statement report may be obtained from the City Auditor's Office, 795 Massachusetts Avenue, Cambridge, Massachusetts 02139.

Note B – Summary of Significant Accounting Policies

The basic financial statement of the CRA have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard-setting body for state and local governmental entities.

The following is a summary of the more significant policies and practices used by the CRA:

<u>*Basis of Presentation*</u> – The CRA's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as specified by the Governmental Accounting Standards Board's ("GASB") requirements for an enterprise fund. Operating revenues and expenses result from the administering of community development projects within the City. All other revenues and expenses are reported as nonoperating revenues and expenses.

<u>*Use of Estimates*</u> – The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of (1) assets and liabilities, (2) contingent assets and liabilities at the date of the basic financial statements, and (3) revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

<u>*Revenue Recognition*</u> – Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The sale of developer rights is the most significant source of revenue received by the CRA; however, these revenues are only earned when certain benchmarks are reached relative to the development of property within the designated KSURP area. The revenues are recognized at the time those benchmarks are achieved. Sales of developer rights are periodic revenues and may not be earned each year.

The CRA temporarily rents its open space property for variable short- and long-term periods. Rents are charged monthly and recognized monthly when billed.

Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Gifts and contributions to CRA programs are recognized as revenues when received.

Deposits and Investments – Cash and cash equivalents include cash on hand and certificates of deposit with maturities of three months or less.

Investments are recorded at fair value in accordance with GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Accounts Receivable – Accounts receivable are presented net of the allowance for doubtful accounts. Management's periodic evaluation of the adequacy of the allowance is based on its past experience. Accounts receivable are written off when deemed uncollectible.

Notes Receivable – Notes receivable are presented at their issued principal amount. Payments from borrowers are not expected until the stated maturity date. Any interest income accruing on the notes will be recognized as revenue at the time it is earned. Notes receivable may be subject to write off when deemed uncollectible.

Development Projects Held for Sale – The CRA is the owner of certain properties (real estate - improved and land) within its project development area. Generally, properties are acquired in connection with specified development projects and the costs associated with the acquisition of properties are recorded as property held for sale. The CRA reviews property held for sale to determine estimated net realizable values. Property carrying amounts in excess of net realizable values are reduced to their net realizable values. Use of the proceeds from the rental and ultimate disposition of the properties is unrestricted.

Capital Assets – Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. All purchases and construction costs in excess of $5,000 and with useful lives exceeding one year are capitalized at the date of acquisition or construction. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated by the CRA on a straight-line-basis. The estimated useful lives of capital assets are being depreciated as follows:

Land improvements	30 years
Machinery and equipment	5 – 7 years

Deferred Outflows/Inflows of Financial Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of financial resources. This separate financial statement element, *deferred outflows of financial resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The CRA has two items that are reported on the statement of net position which relates first to outflows from changes in the net pension liability and will be recognized in pension expense in the future year as more fully described in Note H. Secondly, it relates to the net other postemployment benefits liability, which will be recognized in benefits expense in future years as more fully described in Note I.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of financial resources. This separate financial statement element, *deferred inflows of financial resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The CRA has two items that are reported on the statement of net position which relates first to inflows from changes in the net pension liability and will be recognized as an offset to pension expense in a future year as more fully described in Note H. Secondly, it relates to the net other postemployment benefits liability, which will be recognized as an offset to benefits expense in future years as more fully described in Note I.

Developer Deposits Held – From time to time, the CRA receives developer deposits in accordance with development agreements by and between the CRA and third parties. The deposits held consist primarily of funds placed with the CRA by third party developers for the right to a future purchase of land. Upon purchase, these deposits would be deducted from the agreed-upon purchase price. As of December 31, 2017, there were no such deposits held by the CRA.

Compensated Absences – Employees earn vacation and sick time as they provide services to the CRA. Employees may accumulate (subject to certain limitations) unused vacation and sick time earned and, upon retirement, termination or death, be compensated for unused portions of the time earned. These accumulated benefits will not necessarily be liquidated with expendable, available financial resources.

Taxes – The CRA is exempt from all federal and state income taxes and real estate taxes.

Budgetary Data – GAAP requires a budgetary comparison schedule to be presented for the general fund and each major special revenue fund that has a legally adopted budget. The CRA completes an operating budget that is approved by the Board of Directors; however, the budget serves primarily as a guideline for operations and does not meet the criteria for being legally adopted. Accordingly, the CRA has not presented budgetary information.

Note C – Deposits and Investments

State laws and regulations require the CRA to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and the state treasurer investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for period over ninety days and the underlying security must be a United States obligation. During the fiscal year, the CRA did not enter into any repurchase agreements.

Concentration of Credit Risk: Deposit **–** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The CRA maintains a deposit policy for custodial credit risk relative to cash withholdings. In particular, the policy addresses deposits held in unsecured accounts relative to dollar limits on the percentage of cash held in such accounts, diversification of deposits, as well as time limits on how long unsecured certificates of deposit may be purchased for. The CRA carries deposits that are fully insured by the Federal Deposit Insurance Corporation, or FDIC, as well as the Depositors Insurance Fund, or DIF, as well as uninsured deposits.

At year-end, the carrying amount of the CRA's deposits was $1,886,318 and the bank balance was $1,142,997. Of the CRA's bank balance, $330,180 was insured by the Federal Depository Insurance Corporation (FDIC), and the remainder was uninsured and uncollateralized.

Custodial Credit Risk: Investment – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the CRA may not be able to recover the full amount of its principal investment and/or investment earnings. The CRA's common stock investments totaling $8,644,339 are not exposed to custodial credit risk because they are held by the CRA. However, the fixed income corporate bonds and U.S. government securities are subject to such risk and totaled $21,439,618. The CRA does not have a deposit policy for custodial credit risk relative to investments.

Fair Value of Investments – The CRA reports its investments at fair value. When actively quoted observable prices are not available, the CRA generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The CRA categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.

- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

- *Level 3* – Inputs reflect the CRA's best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the CRA's investments carried at fair value on a recurring basis in the statement of net position at December 31, 2017:

		Fair Value Measurements Using		
	12/31/17	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt securities:				
U.S. Government obligations	$ 14,064,984	$ 14,064,984	$ -	$ -
Corporate bonds	7,374,634	7,374,634	-	-
Negotiable certificates of deposit	2,747,602	-	2,747,602	-
Total debt securities	24,187,220	21,439,618	2,747,602	-
Equity securities:				
Common stock	8,644,339	8,644,339	-	-
Total equity securities	8,644,339	8,644,339 -	-	-
Total Investments by Fair Value Level	$ 32,831,559	$ 30,083,957	$ 2,747,602	$ -

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Negotiable certificates of deposit are valued using matrix pricing based on the securities' relationship to benchmark quoted prices.

Interest Rate Risk: Deposits – This is the risk that fair value losses may arise due to increasing interest rates. The CRA's investment policy does not set limits on investment maturity periods as a way of managing its exposure to fair value losses arising from rising interest rates.

Interest Rate Risk: Investments – Debt security investments are subject to inherent rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of the individual debt instruments. The CRA's investment policy does not set limits on investment maturities as a way of managing its exposure to fair value losses arising from increasing interest rates.

At December 31, 2017, the CRA had the following investments with maturities:

		Time Until Maturity (Years)		
Investment Type	Fair Value	Less Than 1	1-5	6-10
U.S. government obligations	$ 14,064,984	$ 3,165,643	$ 10,899,341	$ -
Corporate fixed income securities	7,374,634	-	6,467,771	906,863
Certificates of deposit	2,747,602	1,503,645	1,243,957	
Total Investments with Maturities	24,187,220	$ 4,669,288	$ 18,611,069	$ 906,863
Other Investments:				
Equities	8,644,339			
Total Investments	$ 32,831,559			

Concentration of Credit Risk – The CRA does not place a limit on the amount that may be invested in any one issuer. No issuer represented more than 5% of the CRA's total investments at December 31, 2017.

Credit Risk – The CRA has not adopted a formal policy related to credit risk.

As of December 31, 2017, the credit quality ratings of the CRA's debt securities were as follows:

Quality Ratings (S&P's)	U.S. Government Obligations	Corporate Fixed Income	Certificates of Deposit	Totals
AAA	$ 1,994,803	$ -	$ -	$ 1,994,803
AA+	12,070,181	-	-	12,070,181
AA-	-	1,397,793	-	1,397,793
A+	-	3,029,566	-	3,029,566
A	-	2,947,275	-	2,947,275
Not rated	-	-	2,747,602	2,747,602
Totals - All	$ 14,064,984	$ 7,374,634	$ 2,747,602	$ 24,187,220

Note D – Accounts Receivables

Accounts receivables as of year-end of the CRA were comprised of a combination of rental fees and other minor operational amounts due from agreements or reimbursement commitments. There was no allowance against the receivable balances recognized at December 31, 2017.

Note E – Note Receivable

A single note receivable existed as of December 31, 2017 for $540,000. The note was issued in November 2017 to an external developer for purposes of supporting affordable housing activities. The note has a maturity of November 22, 2059 and accrues interest annually at 2.60%; no payments of principal or interest are required of the borrower prior to the maturity date.

Note F – Capital Assets

Capital assets activity for the year ended December 31, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 23,184	$ -	$ -	$ 23,184
Total capital assets not being depreciated	23,184	-	-	23,184
Capital assets being depreciated:				
Improvements	1,035,817	-	-	1,035,817
Machinery and equipment	6,000	-	-	6,000
Total capital assets being depreciated	1,041,817	-	-	1,041,817
Less accumulated depreciation for:				
Improvements	(34,527)	(34,527)	-	(69,054)
Machinery and equipment	(6,000)	-	-	(6,000)
Total accumulated depreciation	(40,527)	(34,527)	-	(75,054)
Total capital assets being depreciated, net	1,001,290	(34,527)	-	966,763
Capital assets, net	$ 1,024,474	$ (34,527)	$ -	$ 989,947

Note G – Long-Term Obligations

The following reflects the current year activity and year-end balances of the long-term obligations:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Compensated absences	$ 29,012	$ 18,139	$ (7,253)	$ 39,898	$ 9,975
Net pension liability	284,070	118,653	(111,979)	290,744	-
Net OPEB liability (restated)	888,252	82,129	(84,974)	885,407	-
Total Long-Term Obligations	$ 1,201,334	$ 218,921	$ (204,206)	$ 1,216,049	$ 9,975

Note H – Pension Plan

Pension Plan Description – The CRA contributes to the City of Cambridge Contributory Retirement System (the Retirement System), a cost-sharing, multiple-employer defined benefit pension plan for the City of Cambridge, Massachusetts. The Retirement System was established under Chapter 32 of Massachusetts General Laws (MGL) and is administered by the City and is part of the City's reporting entity. Stand-alone audited financial statements for the year ended December 31, 2017 were issued and are available at the Retirement Office, 100 Cambridge Park Drive, Suite 101, Cambridge, MA 02140.

At December 31, 2017, membership in the Retirement System consisted of:

Retirees and beneficiaries receiving benefits	2,019
Terminated plan members entitled to, but not receiving benefits	728
Terminated plan members with a vested right to a deferred or immediate benefit	126
Active plan members	3,019
Total	5,892

Benefit Terms – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to retirement system. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year or five-year average annual rate of regular compensation, depending on the participant's date of hire. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and job classification.

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.
Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status. Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

Contributions Requirements – The Retirement System has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method. The CRA contributed $64,851 to the System in 2017, which equaled the actuarially-determined contribution requirement for the year. The CRA's contributions as a percentage of covered payroll was approximately 18% in 2017.

Net Pension Liability – At December 31, 2017, the CRA reported a liability of $290,744 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2017 (the measurement date). For the December 31, 2016 update valuation, the Retirement System adopted several changes to its actuarial assumptions and methods. The most significant included (1) a decrease in the assumed investment rate of return, or discount rate, from 7.75% to 7.50%, and (2) changes in the mortality rates for pre-retirement, post-retirement, and disabilities. There were no material changes to the Retirement System's benefit terms since the actuarial valuation.

The CRA's proportion of the net pension liability is based on a projection of the CRA's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The CRA's proportion was approximately 0.12% at December 31, 2017.

Pension Expense – The CRA recognized $111,979 in pension expense in the statement of revenues, expenses, and changes in net position in 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2017, the CRA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 31,186
Net difference between projected and actual earnings on pension plan investments	-	70,374
Changes in assumptions	84,988	-
Changes in proportion and differences between CRA contributions and proportionate share of contributions	119,184	6,862
Total	$ 204,172	$ 108,422

The deferred outflows and inflows of resources are expected to be recognized in the CRA's pension expense as follows:

Year Ended December 31,		
2018	$	43,031
2019		43,573
2020		(8,221)
2021		(6,064)
2022		23,431
Total	$	95,750

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The total pension liability as of the December 31, 2017, measurement date was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to December 31, 2017 using update procedures. The total pension liability as of December 31, 2017 was determined using the following actuarial assumptions:

Actuarial cost method:	Entry age normal cost method
Amortization method:	Prior year's contributions increased 5.85% plus an additional contribution of $300,000
Remaining amortization period:	10 years from July 1, 2016
Asset valuation method:	The difference between the expected rate of return and the actuarial investment return on a market value basis is recognized over a five-year period with a one-time adjustment to set the actuarial value to market value as of December 31, 2015.
Investment rate of return:	7.5% per annum
Projected salary increases:	4.5% per annum
Cost of living adjustments:	3% on the first $16,000 of benefits
Pre-retirement mortality	RP-2014 Blue Collar Employee Table set forward one year for projected generationally with Scale MP-2017
Healthy retiree mortality	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year, females projected generationally Scale MP-2017
Disabled retiree mortality	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with Scale MP-2017

Discount Rate – The discount rate used to measure the total pension liability in the December 31, 2017, actuarial valuation update report was 7.5%, which was a reduction from the previous discount rate of 7.75% in the January 1, 2016 actuarial valuation report. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Expected Rate of Return – The Retirement System's investment policy targets an investment return that meets or exceeds the actuarial investment rate of return (currently 7.5%). This long-term expected rate of return is presented neither as an arithmetic or geometric means.

The investment rate of return assumption is a long-term assumption and is based on capital market expectations by asset class, historical returns and professional judgment. The market expectations analysis used a building-block approach, which included expected returns by asset class and the target asset allocation. The target allocation and best estimates of arithmetic real returns for each major asset class are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash	0.00%	1.06%
Domestic equity	26.00%	6.15%
International developed markets equity	9.00%	7.11%
International emerging markets equity	10.00%	9.41%
Core fixed income	10.00%	1.68%
High yield fixed income	13.00%	4.13%
Real estate	10.00%	4.90%
Commodities	5.00%	4.71%
Hedge fund, GTAA, Risk parity	9.00%	3.94%
Private equity	8.00%	10.28%
Total	100.00%	

Sensitivity Analysis – The following presents the CRA's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as the CRA's proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	1% Decrease (6.50%)	Current Discount (7.50%)	1% Increase (8.50%)
CRA's proportionate share of the net pension liability	$ 567,282	$ 290,744	$ 58,470

Note I – Other Postemployment Benefits (OPEB)

The CRA administers a single-employer defined benefit healthcare plan (the "OPEB Plan"). The OPEB Plan provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Section 20 of Massachusetts General Law Chapter 32B.

Specific benefit provisions and contribution rates are established by the Board of Directors, and Commonwealth laws. All benefits are provided through the CRA's premium-based insurance program. The OPEB Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the CRA's financial statements. OPEB Plan disclosures can be found in this footnote disclosure.

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of December 31, 2017:

Inactive employees or beneficiaries currently receiving benefits	12
Active employees	5
Total	17

Contributions – The contribution requirements of OPEB Plan members and the CRA are established and may be amended by the CRA. Retirees contribute 25% of the calculated contribution through pension benefit deductions and the remainder of the cost is funded by the CRA.

The CRA currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis plus additional contributions in varying amounts annually. The costs of administering the OPEB Plan are paid by the CRA.

For the year ended December 31, 2017, the CRA's average contribution rate was 20.1% of covered-employee payroll.

Net OPEB Liability – The CRA's net OPEB liability was measured as of January 1, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

The total OPEB liability in the most recent actuarial valuation was determined using the following key actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Investment rate of return	4.98%, net of OPEB plan investment expense, including inflation.
Muncipal bond rate	3.16% as of December 31, 2017
Single Equivalent Discount Rate	4.50%, net of OPEB plan investment expense including inflation. Using a blend of the Municipal Bond Index Rate for unfunded periods and the Investment Rate of Return.
Inflation	2.75% annually as of December 31, 2017 and for future periods.
Salary Increases	3.00% annually as of December 31, 2017 and for future periods.
Cost of Living Adjustment	Not applicable.
Pre-Retirement Mortality	RP-2000 Employees Mortality Table projected with scale BB and a base year 2009 for males and females
Post-Retirement Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2009 for males and females
Disabled Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2012 for males and females

The actuarial assumptions used in the most recent valuation were based on the results of an actuarial experience study for the period ended December 31, 2016.

Key assumption changes effective Fiscal Year ending December 31, 2017

Single Equivalent Discount Rate	4.50% previously 4.00%
Pre-Retirement Mortality	RP-2000 Employees Mortality Table projected with scale BB and a base year 2009 for males and females; previously RP-2000 Employees Mortality Table projected to 2017
Post-Retirement Mortality	RP-2000 Healthy Annuitant Table projected generationally with scale BB and a base year 2009 for males and females; previously RP-2000 Employees Mortality Table projected to 2017
Actuarial Cost Method	Updated from projected unit credit to entry age normal

The long-term expected rate of return on 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 OPEB Plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Investment Rate of Return
Domestic Equity - Large Cap	62.00%	4.00%
Cash	38.00%	0.00%
	100.00%	
Real rate of return		2.48%
Inflation assumption		2.75%
Total nominal rate of return		5.23%
Investment expense		-0.25%
Net investment return		4.98%

Discount Rate – The discount rate used to measure the total OPEB liability was 4.50%, which represented a blend of the yield or index rate of 3.16% at December 31, 2017 for twenty-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher used for unfunded periods and the long-term expected rate of return of 4.98%.

Sensitivity Analyses – The following presents the CRA's net OPEB liability as well as what the CRA's net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

	Discount Rate		
	1% Decrease (3.50%)	Current (4.50%)	1% Increase (5.50%)
Net OPEB Liability	$ 1,007,818	$ 885,407	$ 786,639
Service Cost	27,502	21,279	16,692

The following presents the CRA's net OPEB liability as well as what the CRA's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

	1% Decrease (4%)	Healthcare Trend Rate (5%)	1% Increase (6%)
Net OPEB Liability	$ 761,578	$ 885,407	$ 1,042,310
Service Cost	15,100	21,279	29,792

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended December 31, 2017:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at December 31, 2016	$ 888,252	$ -	$ 888,252
Changes for the year:			
Service cost	19,251	-	19,251
Interest	39,355	-	39,355
Difference between expected and actual experience	20,678	872	19,806
Employer contributions	-	80,619	(80,619)
Net investment income	-	638	(638)
Benefit payments	(66,619)	(66,619)	-
Net changes	12,665	15,510	(2,845)
Balances at December 31, 2017	$ 900,917	$ 15,510	$ 885,407

The difference between expected and actual experience was due to the addition of an employee previously not included in the census offset by premiums for Medicare integrated plans increasing less than the expected 16%.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended December 31, 3017, the CRA recognized OPEB expense of $63,353. Deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2017 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 15,119	$ -
Differences between projected and actual earnings on investments	-	698
	$ 15,119	$ 698

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense (benefit) as follows:

December 31,	
2018	$ 5,385
2019	5,384
2020	3,827
2021	(175)
	$ 14,421

Investment Custody – In accordance with Massachusetts General Laws, the Treasurer is the custodian of the OPEB Plan and per the OPEB Plan Document, the CRA Board of Directors serve as the Board of Trustees for the OPEB Plan. As such they are responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets.

OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the CRA.

Investment Policy – The OPEB Plan's investment policies as stipulated in the OPEB Plan Document and limit the Board of Trustees to invest excess funds in accordance with Chapter 203 C of the Massachusetts General Laws.

Investment Rate of Return – For the year ended December 31, 2017 the annual money-weighted rate of return on investments, net of investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability – The components of the net OPEB liability of the CRA at December 31, 2017 were as follows:

Total OPEB Liability	$	900,917
Plan fiduciary net position		(15,510)
Net OPEB liability	$	885,407
Plan fiduciary net position as a percentage of the total OPEB liability		1.7%

Note J – Operating Leases

Facility Lease – The CRA leases office space in Cambridge, Massachusetts. The existing lease agreement, as amended in January 2018, requires monthly lease payments through the original lease maturity date of December 31, 2018. In addition, the CRA pays their proportional share of the common area space costs which for 2017 totaled $5,675. The minimum, annual lease commitments over the remaining lease term is are anticipated to be:

December 31,	Amount
2018	$ 64,924

Note K – Risk Financing

The CRA is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; and natural disasters for which the CRA carries commercial insurance. Additionally, premium-based health care plans sponsored by the CRA for its active employees and retirees is provided through the Group Insurance Commission. The amount of claim settlements has not exceeded insurance coverages in any of the previous three years.

The premium-based health care plans are administered through the Group Insurance Commission (GIC). Health care coverage provided for active employees is funded 75% through contributions by the CRA with the remaining 25% provided by participating employees. With regards to retirees' health care benefits, the retirees provide 10% – 20% of the contributions with the difference funded by the CRA.

Note L – Commitments and Contingencies

The CRA is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at December 31, 2017, cannot be determined, management believes that any resulting liability, if any should not materially affect the financial statements at December 31, 2017.

Note M – Prior Period Adjustment

The CRA adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2017. This was an early adoption as Statement No. 75 was not required to be adopted until fiscal 2018.

Previously, OPEB was accounted for under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The result of the adoption of GASB Statement No. 75 was to eliminate the net OPEB obligation recorded in the CRA financial statements at December 31, 2016 and record the net OPEB liability at December 31, 2016.

The impact is illustrated in the table below:

Net position at December 31, 2016, as reported	$	9,274,616
Eliminate previously recorded OPEB obligation		801,133
Record net OPEB liability		(888,252)
Net position at December 31, 2017, as restated	$	9,187,497

Note N – Implementation of GASB Pronouncements

Current Year Implementations

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective was to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement became effective for the CRA in fiscal year 2017. The adoption of GASB No. 74 had a material effect on the CRA's financial statements and footnote disclosures as it resulted in the inclusion of a fiduciary fund.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are not required to be implemented until fiscal year 2018 however the CRA elected to early implement this standard. The adoption of GASB No. 75 resulted in a reduction in beginning net position of nearly $0.8 million. Refer to Note M.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement was to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement became effective in fiscal year 2017 and did not have a material impact on the CRA's financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement was to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement became effective in fiscal year 2017 and did not have a material impact on the CRA's financial statements.

Future Year Implementations

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2019). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2020). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2020). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2019). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Cambridge, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2017

SCHEDULE OF THE CRA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	Year Ended December 31,			
	2017	2016	2015	2014
CRA's proportion of the net pension liability (asset)	0.16%	0.12%	0.08%	0.05%
CRA's proportionate share of the net pension liability (asset)	$ 290,744	$ 284,070	$ 222,380	$ 78,667
CRA's covered-employee payroll *	$ 365,915	$ 265,156	$ 181,461	$ 109,314
CRA's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	79.5%	107.1%	122.5%	72.0%
Plan fiduciary net position as a percentage of the total pension liability	88.02%	83.08%	79.60%	87.51%

SCHEDULE OF THE CRA'S CONTRIBUTIONS TO PENSION PLAN

	Year Ended December 31,			
	2017	2016	2015	2014
Actuarially determined contribution	$ 64,851	$ 47,698	$ 30,041	$ 17,738
Contributions in relation to the actuarially determined contribution	64,851	47,698	30,041	17,738
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
CRA's covered-employee payroll	$ 365,915	$ 265,156	$ 181,461	$ 109,314
Contributions as a percentage of covered-employee payroll	17.72%	17.99%	16.56%	16.23%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

CAMBRIDGE REDEVLOPMENT AUTHORITY
(A Component Unit of the City of Cambridge Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - OPEB (UNAUDITED)
YEAR ENDED DECEMBER 31, 2017

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
LAST 10 FISCAL YEARS

	December 31, 2017
Total OPEB liability:	
Service cost	$ 19,251
Interest	39,355
Changes of benefit terms	-
Differences between expected and actual experience	20,678
Changes in assumptions	-
Benefit payments	(66,619)
Net change in total OPEB liability	12,665
Total OPEB liability - beginning of year	888,252
Total OPEB liability - end of year (a)	$ 900,917
Plan fiduciary net position:	
Contributions - employer	$ 80,619
Net investment income	1,510
Benefit payments	(66,619)
Administrative expenses	-
Other	-
Net change in Plan fiduciary net position	15,510
Plan fiduciary net position - beginning of year	-
Plan fiduciary net position - end of year (b)	$ 15,510
Net OPEB liability - end of year (a) - (b)	$ 885,407
Plan fiduciary net position as a percentage of the total OPEB liability	1.72%
Covered-employee payroll	$ 391,450
Net OPEB liability as a percentage of covered-employee payroll	226.19%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Note: This schedule is presented using the optional format of combining the required schedules in paragraph 36a and 36b of GASB 74.

See accompanying independent auditors' report.

CAMBRIDGE REDEVLOPMENT AUTHORITY
(A Component Unit of the City of Cambridge Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - OPEB (UNAUDITED)
YEAR ENDED DECEMBER 31, 2017

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS

	December 31, 2017
Actuarially-determined contribution	$ 71,434
Contributions in relation to the actuarially-determined contribution	(80,619)
Contribution deficiency (excess)	$ (9,185)
Covered-employee payroll	$ 391,450
Contribution as a percentage of covered-employee payroll	20.6%

Valuation Date	December 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Amortization Period	30 years
Asset Valuation Method	Market Value of Assets as of Reporting Date
Investment rate of return	4.98%
Municipal Bond Rate	3.16%
Single Equivalent Discount Rate	4.50%
Inflation	2.75%
Healthcare cost trend rates	5.00%
Salary increases	3.00%

SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS

	December 31, 2017
Annual money-weighted rate of return, net of investment expense	11.82%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditors' report.

CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Cambridge, Massachusetts)

SUPPLEMENTARY INFORMATION - EXPENSE ALLOCATIONS - PROJECT COSTS SCHEDULE
YEAR ENDED DECEMBER 31, 2017

	Expense Categories							
Allocated Project Costs	**Salaries**	**Community Outreach**	**Marketing & Professional Development**	**Office Management**	**Property Management**	**Professional Services**	**Redevelopment Investments**	**Totals**
Ames Street	$ 3,613	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,613
Ecodistrict	1,535	-	-	-	-	-	-	1,535
Economic Development	15,561	-	5,706	-	-	2,458	-	23,725
Forward Fund	14,505	29	-	267	-	-	65,892	80,693
Foundry	82,135	5,384	358	83	-	92,160	8,143	188,263
Grand Junction	12,459	-	-	-	19	-	-	12,478
KS Open Space	18,786	13	1,190	-	34,615	2,610	-	57,214
KSTEP	-	-	-	-	-	2,381	-	2,381
MXD Design	23,170	-	98	19	-	14,514	-	37,801
Parcel 6	14,504	-	-	33	2,683	-	12,042	29,262
Stragetic Planning	7,619	20	(790)	-	-	1,650	-	8,499
Transportation	33,968	30	101	152	-	149,778	-	184,029
Volpe	6,832	-	-	-	-	84	-	6,916
Wellington-Harrington	3,407	-	-	492	-	2,745	-	6,644
Windsor	9,159	-	5	-	3,750	10,840	-	23,754
Totals	$ 247,253	$ 5,476	$ 6,668	$ 1,046	$ 41,067	$ 279,220	$ 86,077	$ 666,807

See accompanying independent auditor's report.

Roselli, Clark & Associates
Certified Public Accountants

500 West Cummings Park
Suite 4900
Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITOR'S 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*

Board of Directors
Cambridge Redevelopment Authority
Cambridge, Massachusetts

We have audited, 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, the financial statements of the activities of the Cambridge Redevelopment Authority (the "CRA"), a component unit of the City of Cambridge, Massachusetts, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the CRA's basic financial statements and have issued our report thereon dated October 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the CRA'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CRA's internal control. Accordingly, we do not express an opinion on the effectiveness of the CRA'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 CRA's financial statements are free of 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 25, 2018

CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the
City of Cambridge, Massachusetts)

MANAGEMENT LETTER

DECEMBER 31, 2017

CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Cambridge, Massachusetts)

MANAGEMENT LETTER
YEAR ENDED DECEMBER 31, 2017

Table of Contents

ROSELLI, CLARK & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park
Suite 4900
Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

Honorable Board of Directors
Cambridge Redevelopment Authority
Cambridge, Massachusetts

In planning and performing our audit of the financial statements of the Cambridge Redevelopment Authority (the "CRA"), a component unit of the City of Cambridge, Massachusetts, as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the CRA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CRA's internal control. Accordingly, we do not express an opinion on the effectiveness of the CRA'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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

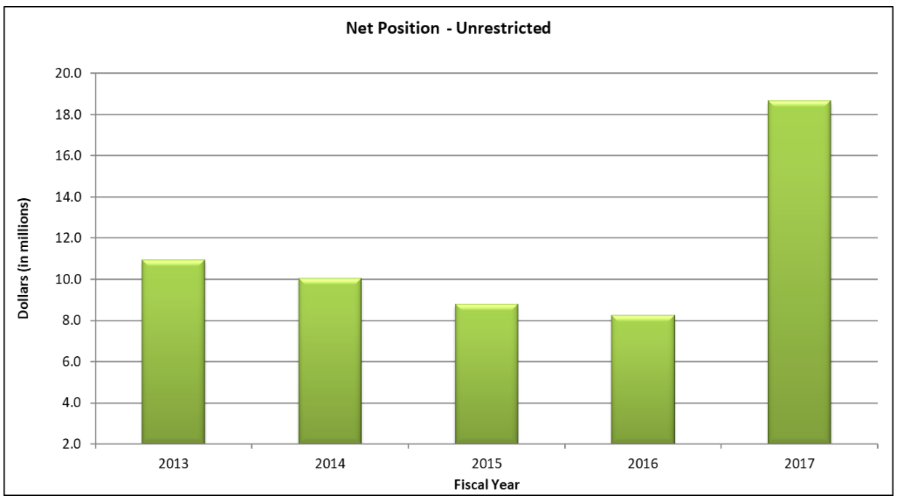
Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 25, 2018

I. OVERVIEW

The year 2017 represented a transformative year for the CRA as an entity. Significant private development within the Kendall Square Urban Renewal Project (KSURP) area has generated financial resources during the year of over $23 million with more funds anticipated for the next couple of years. This will allow the CRA to exist as an active and community enhancing entity for multiple years to come and has provided the funding necessary for the CRA to engage in longer term development strategies.

As such the CRA's available, unrestricted net position at the end of 2017 has nearly doubled from its previous 4-years average, as noted below.



Additionally, what is not reflected above are the financial resources allocated and restricted, for specific program use by the Board relative to the KSTEP and Foundry projects which held approximately $6.0 million and $8.9 million, respectively as of December 31, 2017.

During the fiscal year ended December 31, 2017, the CRA's net position increased about $25.4 million. This was primarily the result of recording recurring revenues of only about $0.1 million, investment earnings generating nearly $0.5 million, and one-time revenues of over $23.0 million from the sale of developer rights and $3.0 million from private donations. Total expenses were about $1.3 million which is very similar to the previous year expenses; expenses are anticipated to increase in subsequent years, as due to the timing of the sale of development rights, limited time remained for actual expenditures from the income proceeds. In future years, as the revenue stream from the sales of development rights falls back to it more normal patterns, a low revenue and high expense annual financial model is anticipated to drive operations most years throughout the life of the CRA. It remains imperative that strong fiscal management of those resources be achieved as long-term expense planning to maximize inconsistent revenue streams remains a key element of the CRA's operations.

This letter to management is intended to provide the CRA and its management with recommendations for improvement in accounting and financial operations and informational items. The CRA should review these recommendations and informational items, and, if determined to be cost-effective, implement these improvements.

II. INFORMATIONAL ITEMS

New Accounting Principal – OPEB

The Governmental Accounting Standards Board, or GASB, issued new pronouncements GASBs 74 and 75, related to other postemployment benefits, or OPEB. OPEB typically includes health and welfare plans and other similar benefits provided to CRA retirees exclusive of pension benefits. In addition to implementing the new GASBs into the 2017 financial statements, the CRA also authorized an OPEB Trust Fund under MGL and that fund has been reflected as a separate fiduciary fund within the CRA's audited financial statements effective January 1, 2017.

The first of the new pronouncements, GASB 74, required adoption for fiscal periods beginning after June 15, 2016 (your fiscal year 2017). The primary effect was that it moved the CRA to more extensive OPEB plan disclosures within the footnotes to the financial statements and the required supplementary information at the back of the audited financial statements. This also included reflecting the CRA's monetary contributions to the OPEB Trust Fund starting in 2017 as assets to be used as funding offsets against the OPEB liability. The information to generate these disclosures is provided to us by the CRA's actuary who prepares the OPEB study.

The second of the new pronouncements, GASB 75, requires adoption for fiscal periods beginning after June 15, 2017 (your fiscal year 2018); however, early adoption is permitted and accordingly, the CRA early adopted and implemented the reporting of GASB 75 provisions in 2017. The primary effect was to issue a directive on the calculation and reporting of the Net OPEB Liability amount reflected within the audited financial statements as well as, the impact of any deferred inflows and outflows of resources mostly resulting from differences between actuarial assumed amounts versus actual results or events which in most instances are recognized and amortized (smoothed) over an approximate five-year period. The information to generate these disclosures is provided to us by the CRA's actuary who prepares the OPEB study.

In the previous year, the CRA reported a Net OPEB Obligation calculated under the old GASB 45 requirements which reflected a liability on the CRA's financial statements of approximately \$801,000. Under GASB 75, the new liability is referred to as the Net OPEB Liability and reflects an amount of approximately \$885,000, so an additional liability of approximately \$85,000 was recognized as a result of the change in GASBs.

CRA Management Response:

The CRA plans to continue contributing investments into the OPEB Trust Fund at a similar rate as it has in the past years.

Fair Value Investment Reporting on Project Funds

With the significant influx of operational funds received during 2017 from the sale of development rights proceeds, the CRA has accordingly started to allocate a portion of these funds towards long-term projects with specific goals of assisting other parties with economic based development within the City of Cambridge. In order to maximize the earmarked amounts, a more active approach to investing those monetary funds has started. One of the results being noticed coming out of 2017 and into 2018, is that more conservative portfolios that focused investments on a stronger fixed income-based model have resulted in reductions to investment balances when factoring in unrealized losses as required under the GASB directed reporting of investments.

Given that the stock market has reflected significant gains in recent years and the general belief that fixed income investments are "safer" relative to the preservation of investment principal, this result of lost principal resulting from unrealized losses has generated some confusion within many entities in reading and evaluating the financial performance as reflected within the audited financial statements. In very general terms, the unrealized losses from fixed income investments are largely investment market driven, with impacts based on lower investor demand for fixed income instruments versus the more capital gain driven stock equity instruments; as well as, the somewhat quiet but not insignificant increase in interest rates offered by new fixed income instruments that pay out greater interest than not much older fixed income instruments. As such, some of the project funds are reflecting lower available monetary assets than was initially allocated to it as a direct result of unrealized losses in principal. However, we would point out, that the face value of any fixed income investment is due and payable as stated at maturity and the interest income amounts are fixed and guaranteed through the date of maturity. Accordingly, if the CRA is approaching its investment strategy from a largely buy and hold-to-maturity model, these fair value losses reflected with the annual financial statement reporting, do not reflect the very likely ultimate result from the investments, which will be, that as time to the maturity date gets closer to when the face value of the instrument will be paid out to the investor, the unrealized losses are anticipated to diminish and move to $0 loss.

As with any investment, results cannot be guaranteed because the issuer of the instrument could become financially unstable and unable to make the required payments, and the CRA could ultimately have to reflect a realized loss. However, at this time, the CRA does not believe it holds any fixed income securities with such risk becoming a reality. Therefore, we encourage those involved in the management of the CRA investments be properly educated and aware of the short and long-term impacts on the projects funds resulting from the investment of earmarked monies, to best understand the volatility and fluctuations that could be experienced within the project funds resulting therefrom. It is our understanding that the CRA believes that as a long-term investment strategy, the interest and investment income derived from these instruments will outpace and provide more income than any potential unrealized losses currently shown from holding such investments, which is not an unreasonable investment strategy approach when looking at it over a multi-year period.

CRA Management Response:

The CRA plans to hold its fixed income investments to maturity.

Component Unit Reporting

The CRA is a legal component unit entity of the City of Cambridge, Massachusetts (the City) under the GASB establish accounting and reporting guidelines and has been from inception. In more recent years, the CRA's financial position has not been material to the City and as such were not required to be and nor was included within the City's audited financial statements. However, with the significant income received by the CRA in 2017 from the sale of development rights; the CRA financial position is now material to the City's financial statement reporting. Accordingly, the CRA's December 31, 2017 audited financial statements will now be included within the City's June 30, 2018 audited financial statements. The City issues a specific type of financial statement report known as a Comprehensive Annual Financial Report (CAFR) which is required to be completed and filed by 6 months after the end of their fiscal year (so the subsequent December 31st after the CRA's annual fiscal year reporting). The CRA and its auditors worked with the City and its auditors and were able to provide the information required for inclusion in the City's CAFR within the requested timeline by the City.

CRA Management Response:

The CRA appreciates the efforts of Roselli, Clark & Associates, the City of Cambridge, and its auditor, to coordinate various inputs across multiple, fixed year time frames.

III. OPERATIONAL COMMENTS

Governmental Accounting Software

The CRA had been operating with constrained financial resources for many years heading into 2017, and the CRA Board and management had only implemented various limited activity projects to be pursued. At that time, the CRA was able to modify its general ledger accounting system, Quickbooks, to accommodate classification reporting of revenues and expenses for those projects which was adequate since many of the projects were either being directly funded through annual budgeted line items or were short-term endeavors where earmarks were appropriated and utilized within approximately a year. Accordingly, under that model of operation, it was not deemed a notable concern that each project didn't maintain its own segregated cash or remaining fund balance amounts for financial reporting purposes in Quickbooks because the activity was segregated but not the financial resources.

In 2017, with the large influx of monetary resources from development rights proceeds (for which even lesser but still notable amounts are anticipated over the next couple of years), the CRA Board and management have begun a more aggressive approach towards increasing the scope of its endeavors to now encompass larger financial dollar projects, that in some cases can be reasonably expected to exist for a long-term period. A well-developed general ledger accounting system designed to segregate, track and report on these projects individually would be required to provide clearer and more usable financial transactional and status reporting for each individual project with which to assist the Board and management in its decision-making processes, as well as, transparency to the public.

However, Quickbooks is not a true governmental, fund accounting-based software program, and as such, it is limited in its ability to perform such project/fund segregations, and while not impossible, would require significant effort in performing separate project tracking on Excel spreadsheets in order to track, reconcile, and calculate such amounts for manual journal entry adjustment in Quickbooks, and even then such processes can be limited in providing real-time financial or retro-active financial status data. As the CRA is expanding its operations and exploring new areas to pursue, it is important that from an office infrastructure perspective, CRA personnel be provided the proper tools to meet the expectations that follow such expansion, and accounting should not be discounted as a key component to supporting project operations. It is our belief that the CRA is transitioning its financial activities beyond just basic bill payments and general payroll for office operations; therefore, we have concerns that Quickbooks is no longer a truly viable accounting system software for the CRA. Fund and project-based accounting is not at all basic or easy accounting to execute well and such specialized accounting software specifically designed for those purposes are accordingly a larger financial investment than a retail version of Quickbooks. Accordingly, we are highly encouraging the CRA Board and management to evaluate other accounting system options that can follow with and adapt to the financial and operational changes occurring within the CRA at this time.

CRA Management Response:

The CRA will begin exploring alternative fund accounting software options.

IV. CLOSED OUT PRIOR YEARS' FINDINGS

The below was noted with findings in the prior year, but are now deemed to be closed out and/or no longer operational deficiencies because of actions taken by the CRA through the date of this letter.

Certified Procurement Officer

Entities subject to Chapter 30B procurement laws are required to formally identify a chief procurement officer for their entity. To qualify, the person selected must attend and pass the certified procurement officer course sponsored by the Massachusetts Inspector General Office. The 3-day courses are held multiple time in Boston throughout the year and are intended to give public officials an in-depth overview of procurement in Massachusetts. We suggest the Executive Director attend these courses to gain a better understanding of the complex aspects of procurement.

Updated Status:

The Executive Director has completed the basic procurement classes necessary to be identified as the CRA's Chief Procurement Officer. Additionally, they are presently evaluating timing options for attending more specialized procurement topics through classes offered by the Massachusetts Inspector General Office. The CRA will continue to utilize its legal counsel extensively to review its procurement processes for various new contracting activities from park construction to developer selection.

Land Held for Development

In 2014, the Executive Director was notified by the City of Cambridge's Assessor's Office that certain land parcels within the City listed the CRA as the property owner. Such parcels totaling a reportable value of $66,997 had not been reflected on the CRA's previous lists of property owned by the CRA, and the financial statements were adjusted accordingly at that time. In 2016, the CRA identified for itself, that one of those parcels had been given to the City by the CRA years ago, but the City's Assessor's Office had not recorded the change in ownership on their records as a result of the donated land. Therefore, $59,928 has been reflected as a reduction of that land held for development asset within the 2016 audited financial statements as a disposal of property to reflect that the CRA is not the owner.

Updated Status:

The CRA has made the necessary adjustments to the general ledger to reflect the proper account balances for identified parcels as of 12/31/17. The CRA had assigned a staff planner to work on resolving the discrepancies with the City Assessor's Department, utilizing research in the CRA archives and the Suffolk County deed records, this project has been effectively completed in 2018 and the results of which will be evaluated for any potential adjustments that should be considered for the general ledger.