Roselli, Clark & Associates
Certified Public Accountants

Cambridge Redevelopment Authority
(A Component Unit of the City of Cambridge, Massachusetts)

Report on Examination of the
Basic Financial Statements
and Additional Information
Year Ended December 31, 2018

Report on Internal Control
Over Financial Reporting and
on Compliance and Other Matters
Year Ended December 31, 2018

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

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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, 2018, 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, 2018, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules listed under the required supplementary information section in the accompanying 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 3, 2019, 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 3, 2019

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, 2018. 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 $37.5 million *(total net position)*. Of this amount, over $21.5 million is unrestricted and may be used to meet the CRA's ongoing obligations.

- As part of its ongoing mandate to provide management and support to the further development of the Kendall Square Urban Renewal Area, the CRA Board of Directors has dedicated, in aggregate, nearly $15.0 million of net position for use on the KSTEP and Foundry project programs. As of December 31, 2018, no project expenses have been recorded to these restricted funds programs.

- The CRA's assets are primarily comprised of cash and investments of over $33.5 million, or approximately 86.2% of total assets.

- The CRA's total net position increased over $2.9 million year to 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.

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 $37.5 million at the close of the most recent fiscal year. This was an increase of about $2.9 million (8.5%) from the preceding year.

The condensed statement of net position is as follows:

	December 31, 2018	December 31, 2017
Assets		
Current and other assets	$ 37,914,571	$ 34,771,320
Capital assets, net	962,489	989,947
Total assets	38,877,060	35,761,267
Deferred Outflows of Financial Resources	367,164	204,870
Liabilities		
Long-term liabilities	1,477,409	1,206,074
Other liabilities	193,687	61,643
Total liabilities	1,671,096	1,267,717
Deferred Inflows of Financial Resources	76,108	123,541
Net Position		
Net investment in capital assets	962,489	989,947
Restricted for programs	15,000,000	14,915,439
Unrestricted	21,534,531	18,669,493
Net Position	$ 37,497,020	$ 34,574,879

The largest portion of the CRA's net position, over $21.5 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 also includes restricted program funds reported at fair value totaling almost $15.0 million (allocated to the KSTEP and Foundry project programs in initial amounts of approximately $6.0 million and $8.9 million, respectively). The restricted value of these funds are anticipated to be impacted annually as project costs are incurred; no amounts have been expensed against these restricted funds as of December 31, 2018. Also, a portion of the CRA's net position (approximately $0.96 million) 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.

A vast majority of the CRA's total assets consists of cash, cash equivalents, and investments which approximate $33.5 million. Furthermore, the total assets in 2018 were increased by proceeds of $4,750,000 from the sale of development rights which is being paid to the CRA over an eleven-year period. This transaction resulted in a $4.3 million receivable at year-end.

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

	Year Ended December 31,	
	2018	2017
Revenues		
Program revenues:		
Sale of development rights	$ 4,984,860	$ 23,152,383
Grants, contributions and donations	-	3,000,000
Investment income and other	396,976	498,351
Total revenues	5,381,836	26,650,734
Expenses		
Administrative	604,407	537,316
Professional services	99,828	23,412
Project consulting	1,013,831	666,807
Property maintenance	20,942	1,290
Forgiveness of project note	540,000	-
Disposition of property	146,160	-
Depreciation	34,527	34,527
Total expenses	2,459,695	1,263,352
Change in net position	2,922,141	25,387,382
Net position - beginning of year	34,574,879	9,187,497
Net position - end of year	$ 37,497,020	$ 34,574,879

The CRA's total net position at December 31, 2018, increased notably over the prior year. Operating revenues of almost $5.0 million consisted primarily of the sale of development rights. While this caused an increase in total net position, it still represented a decrease of nearly $15.2 million in operating revenues compared to the prior year. This was due to the sale of development rights in the prior year including a very large transaction. The timing and amounts of proceeds from the sale of development rights is always anticipated to fluctuate significantly year to year and may in some years be non-existent as it is predicated on the activities of outside property developers, the City's approval of projects, and the economic health of the economy.

Nonoperating revenues totaled almost $0.4 million in 2018 and consisted entirely of net investment income; This was consistent with the prior year amount.

Operating expenses increased significantly; almost $1.2 million. Hand in hand with the recent increase in available financial resources has been a vigorous energizing of redevelopment activities which has resulted in a collateral increase in operating expenses. This is reflected within its administrative, professional services and project consulting costs which in aggregate were almost $0.5 million greater than the prior year. In addition, the CRA had issued a $554,040 long-term note receivable in a prior year to provide assistance with an affordable housing project; in the current year, the CRA made a determination that as long as the loan recipient continues to maintain use of the property for affordable housing, the CRA will most likely not enforce its right to collect the loan principal or interest at time of maturity. Therefore, since the loan is not likely to be collected, a provision for bad debt expense has been recorded against the receivable.

Nonoperating expenses includes a recognition for the contribution of a parcel of land to the City of Cambridge, Massachusetts, for use as open space, which was previously being held for development by the CRA. The land had been previously reported by the CRA with a cost value of $146,160; and the CRA believes the donated land to have a higher, actual market value of worth.

Capital Asset and Debt Administration

The CRA's investment in capital assets as of December 31, 2018, approached $1.0 million (net of accumulated depreciation). This investment in capital assets includes land, improvements to the land, and machinery and equipment. Changes to the capital assets for 2018 were not significant, and the change in net value relates almost entirely 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, 2018, 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 expected significant inflow of available financial resources from the sale of development rights anticipated for 2019 and even more in coming years relative to ongoing building construction in the KSURP area, the CRA continues to aggressively evaluate how it may utilize its resources towards new and expanding programmatic endeavors as it transitions from the evaluation phase to the implementation stage.

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 interested parties a general overview of 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, 2018

Assets	
Current assets:	
Cash and cash equivalents	$ 1,211,570
Investments	32,292,359
Accounts receivable	433,917
Other assets	24,576
Total current assets	33,962,422
Noncurrent assets:	
Accounts receivable	3,886,364
Note receivable (net of allowance for doubtful collection of $554,040)	-
Development projects held for sale	65,785
Capital assets, not being depreciated	30,253
Capital assets, net of accumulated depreciation	932,236
Total noncurrent assets	4,914,638
Total Assets	38,877,060
Deferred Outflows of Financial Resources	
Related to net pension liability	355,767
Related to net other postemployment benefits liability	11,397
Total Deferred Outflows of Financial Resources	367,164
Liabilities	
Current liabilities:	
Accounts payable	183,324
Compensated absences	10,363
Total current liabilities	193,687
Noncurrent liabilities:	
Compensated absences	31,090
Net pension liability	606,895
Net other postemployment benefits liability	839,424
Total noncurrent liabilities	1,477,409
Total Liabilities	1,671,096
Deferred Inflows of Financial Resources	
Related to net pension liability	28,798
Related to net other postemployment benefits liability	47,310
Total Deferred Inflows of Financial Resources	76,108
Net Position	
Net investment in capital assets	962,489
Restricted for programs - KSTEP	6,000,000
Restricted for programs - Foundry	9,000,000
Unrestricted	21,534,531
Total Net Position	$ 37,497,020

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, 2018

Operating Revenues		
Sale of development rights	$	4,795,308
Rental income		30,388
Other income		159,164
Total Operating Revenues		4,984,860
Operating Expenses		
Administrative		604,407
Professional services		99,828
Project consulting		1,013,831
Property management		20,942
Provision for doubtful accounts		540,000
Depreciation		34,527
Total Operating Expenses		2,313,535
Operating Income		2,671,325
Nonoperating Revenues (Expenses)		
Investment income		396,976
Property contribution		(146,160)
Total Nonoperating Revenues (Expenses)		250,816
Change in Net Position		2,922,141
Net Position - Beginning of year		34,574,879
Net Position - End of year	$	37,497,020

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, 2018

Cash Flows from (used in) Operating Activities	
Sale of development rights	$ 4,795,308
Rental income and other receipts	(4,095,641)
Payments to vendors	(850,652)
Payments for wages and benefits	(689,892)
Net Cash Provided by Operating Activities	(840,877)
Cash Flows from (used in) Investing Activities	
Investment of operating cash, net	(979,955)
Investment income	396,976
Net Cash Used in Investing Activities	(582,979)
Net Change in Cash and Cash Equivalents	(1,423,856)
Cash and Cash Equivalents	
Beginning of year	2,635,426
End of year	$ 1,211,570

Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities	
Operating income	$ 2,671,325
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Provision for depreciation	34,527
Provision for allowance for doubtful accounts	540,000
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Accounts receivable	(4,285,193)
Other assets	4,812
Deferred outflows of resources	(162,294)
Accounts payable and accrued expenses	131,656
Deferred compensation	1,555
Related to net pension liability	316,151
Related to net other postemployment benefits liability	(45,983)
Deferred inflows of resources	(47,433)
Net Cash Provided by Operating Activities	$ (840,877)

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, 2018

	Other Postemployment Benefits Trust (OPEB) Fund
Assets	
Cash and cash equivalents	$ 5,987
Investments	15,245
Total Assets	21,232
Liabilities	
	-
Total Liabilities	-
Net Position	
Held in trust for other postemployment benefits	21,232
Total Net Position	$ 21,232

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, 2018

	Other Postemployment Benefits Trust (OPEB) Fund
Additions	
Contributions:	
Employer	$ 60,909
Total contributions	60,909
Investment income:	
Interest and dividends	329
Net loss on fair value of investments	(1,607)
Net investment earnings	(1,278)
Other income	-
Total Additions	59,631
Deductions	
Benefits paid	53,909
Total Deductions	53,909
Change in Net Position	5,722
Net Position - Beginning of Year	15,510
Net Position - End of Year	$ 21,232

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:

Basis of Presentation – 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.

Use of Estimates – 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.

Revenue Recognition – 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 GAAP.

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, 2018, 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 $467,210 and the bank balance was $496,390. Of the CRA's bank balance, $246,390 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 $9,834,705 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 $18,813,016. 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, 2018:

		Fair Value Measurements Using		
	12/31/18	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Debt securities:				
U.S. Government obligations	$ 11,802,874	$ 247,990	$ 11,554,884	$ -
Corporate bonds	7,010,142	7,010,142	-	-
Negotiable certificates of deposit	1,235,107	-	1,235,107	-
Total debt securities	20,048,123	7,258,132	12,789,991	-
Equity securities:				
Common stock	9,834,705	9,834,705	-	-
Total equity securities	9,834,705	9,834,705 -	-	-
Total Investments by Fair Value Level	29,882,828	$ 17,092,837	$ 12,789,991	$ -
Investments Measured at Amortized Cost				
Money market mutual funds	3,175,123			
Total investments at fair value	$ 33,057,951			

Equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt securities and negotiable certificates of deposit are classified in Level 2 valued using observable inputs from similar securities, including basing value on yield currently available on comparable securities of issued with similar credit ratings.

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, 2018, the CRA had the following investments with maturities:

Investment Type	Fair Value	Time Until Maturity (Years) Less Than 1	1-5	6-10
U.S. government obligations	$ 11,802,874	$ 2,687,420	$ 9,115,454	$ -
Corporate fixed income securities	7,010,142	1,491,260	5,090,714	428,168
Certificates of deposit	1,235,107	744,360	490,747	-
Total Investments with Maturities	20,048,123	$ 4,923,040	$ 14,696,915	$ 428,168
Other Investments:				
Equities	9,834,705			
Money market mutual funds	3,175,123			
Total Investments	$ 33,057,951			

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, 2018.

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

As of December 31, 2018, 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	$ 1,989,188	$ -	$ -	$ 1,989,188
AA+	9,813,686	-	-	9,813,686
AA-	-	1,582,686	-	1,582,686
A+	-	2,136,040	-	2,136,040
A	-	2,863,248	-	2,863,248
A-	-	428,168	-	428,168
Not rated	-	-	1,235,107	1,235,107
Totals - All	$ 11,802,874	$ 7,010,142	$ 1,235,107	$ 20,048,123

Note D – Accounts Receivables

Receivables as of year-end for the CRA, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Rental income	$ 200	$ -	$ 200
Reimbursable expenses	1,899	-	1,899
Proceeds from development rights	4,318,182	-	4,318,182
Total	$ 4,320,281	$ -	$ 4,320,281

Accounts receivables as of year-end of the CRA were comprised of proceeds from development rights and other minor operational amounts due from agreements or reimbursement commitments.

In the current fiscal year, the CRA agreed to an agreement with Boston Properties to receive $4,750,000 over the next eleven years, for the residential area development rights of a building. The CRA is expected to receive $431,818 each year for the next eleven years.

Note E – Note Receivable

Note receivables as of year-end for the CRA, in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Note Receivables	Gross Amount	Allowance for Doubtful Accounts	Net Amount
Affordable housing loan	$ 554,040	$ (554,040)	$ -
Total	$ 554,040	$ (554,040)	$ -

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. Presently, as long as the borrower maintains the usage of the property within the stated purpose on the loan agreement, the CRA anticipates forgiving this loan at time of maturity; therefore, an allowance for potential non-collection has been recorded for the full amount of the note receivable. However, as this forgiveness is not declared in the loan documents, the loan remains a valid receivable of the CRA and is accruing interest annually under the agreement.

Note F – Capital Assets

Capital assets activity for the year ended December 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 23,184	$ 7,069	$ -	$ 30,253
Total capital assets not being depreciated	23,184	7,069	-	30,253
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	-	(6,000)	1,035,817
Less accumulated depreciation for:				
Improvements	(69,054)	(34,527)	-	(103,581)
Machinery and equipment	(6,000)	-	6,000	-
Total accumulated depreciation	(75,054)	(34,527)	6,000	(103,581)
Total capital assets being depreciated, net	966,763	(34,527)	-	932,236
Capital assets, net	$ 989,947	$ (27,458)	$ -	$ 962,489

Note G – Long-Term Obligations

The following reflects the current year activity in the long-term liability accounts:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Compensated absences	$ 39,898	$ 12,914	$ (11,359)	$ 41,453	$ 10,363
Net pension liability	290,744	522,157	(206,006)	606,895	-
Other postemployment benefits	885,407	76,657	(122,640)	839,424	-
Total Long-Term Obligations	$ 1,216,049	$ 611,728	$ (340,005)	$ 1,487,772	$ 10,363

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, 2018 were issued and are available at the Retirement Office, 100 Cambridge Park Drive, Suite 101, Cambridge, MA 02140.

At December 31, 2018, 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 $81,458 to the System in 2018, which equaled the actuarially determined contribution requirement for the year. The CRA's contributions as a percentage of covered payroll was approximately 18.5% in 2018.

Net Pension Liability – At December 31, 2018, the CRA reported a liability of $606,895 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2018 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, 2018 (the measurement date). 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 0.19% at December 31, 2018.

Pension Expense – The CRA recognized $166,390 in pension expense in the statement of revenues, expenses, and changes in net position in 2018.

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2018, 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	$ 8,696	$ 27,775
Net difference between projected and actual earnings on pension plan investments	139,842	-
Changes in assumptions	71,155	-
Changes in proportion and differences between CRA contributions and proportionate share of contributions	136,074	1,023
Total	$ 355,767	$ 28,798

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

Year Ended December 31,	
2019	$ 113,325
2020	53,423
2021	55,986
2022	92,989
2023	11,246
Total	$ 326,969

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, 2018, measurement date was determined by an actuarial valuation as of January 1, 2018, which was rolled forward to December 31, 2018 using update procedures. The total pension liability as of December 31, 2018 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
Asset valuation method:	5-year smoothed market
Inflation rate:	3.5% per annum
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 was 7.5%. 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%	1.12%
Domestic equity	25.00%	6.16%
International developed markets equity	9.00%	6.69%
International emerging markets equity	10.00%	9.47%
Core fixed income	15.00%	1.89%
High yield fixed income	8.00%	4.00%
Real estate	10.00%	4.58%
Commodities	2.50%	4.77%
Hedge fund, GTAA, Risk parity	9.00%	3.68%
Private equity	11.50%	10.00%
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	$ 950,035	$ 606,895	$ 318,333

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.

With respect to OPEB plan reporting, GASB issued GASB Statement No.'s 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions,* and Statement No, 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Reporting requirements for governments who administer an OPEB plan as defined under the accounting standard are required to present disclosures under both GASB 74 and GASB 75.

GASB 74 requires specific disclosures and required supplementary information that relate directly to the fiduciary fund in which the OPEB Plan is recorded. GASB 75 address disclosures related to the net OPEB liability required to be recorded by the government in its applicable financial statements. A number of these disclosures are identical, especially if the measurement date under GASB 75 is the same as the plan year-end date. When a different measurement date is used different assumptions and calculations will result.

For the year ended December 31, 2018, the CRA elected to use a measurement date that was the same as the plan year-end date; thus, the majority of the same disclosures are used and will not be repeated.

GASB Statement No. 75

OPEB Plan disclosures that impact the CRA's net OPEB liability using a measurement date of December 31, 2018, are summarized as follows:

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of December 31, 2018:

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 and annually anticipates contributing additional funding above that amount into the OPEB Trust Fund. The costs of administering the OPEB Plan are paid by the CRA. For the year ended December 31, 2018, the CRA's average contribution rate was 15.11% of covered-employee payroll.

Net OPEB Liability – The CRA's net OPEB liability was measured as of December 31, 2018, using an actuarial valuation as of January 1, 2017. The components of the net OPEB liability of the CRA at December 31, 2018, were as follows:

Total OPEB liability	$	860,656
Plan Fiduciary Net Position		(21,232)
Net OPEB liability	$	839,424
Plan Fiduciary Net Position as a percentatge of total liability		2.5%

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	5.37%, net of OPEB plan investment expense, including inflation
Muncipal Bond Rate	3.64% as of December 31, 2018
Single Equivalent Discount Rate	5.00%, net of OPEB plan investment expense including inflation
Inflation	2.75% annually as of December 31, 2018 and for future periods
Salary Increases	3.00% annually as of December 31, 2018 and for future periods
Cost of Living Adjustment	Not applicable
Pre-Retirement Mortality	RP-2000 Employees Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Post-Retirement Mortality	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2009 for males and females
Disabled Mortality	RP-2000 Healthy Annuitant Mortality Table projected generationally with scale BB and a base year 2012 for males and females

Discount Rate – The discount rate used to measure the total OPEB liability was 5.00% which represented a blend of the yield or index rate of 3.64% at December 31, 2018, 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 5.37%. The discount rate was increased from 4.50% which was a key change in assumptions.

Long-Term Expected Rate of Return – 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. The rate reported of 5.37% represents an increase over the prior year rate of 4.98%.

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	71.75%	4.00%
Domestic Equity - Small/Mid Cap	0.00%	6.00%
International Equity - Developed Market	0.00%	4.50%
International Equity - Emerging Market	0.00%	7.00%
Domestic Fixed Income	0.00%	2.00%
International Fixed Income	0.00%	3.00%
Alternatives	0.00%	6.50%
Real Estate	0.00%	6.25%
Cash	28.25%	0.00%
	100.00%	
Real rate of return		2.87%
Inflation assumption		2.75%
Total nominal rate of return		5.62%
Investment expense		-0.25%
Net investment return		5.37%

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% lower or 1% higher than the current discount rate as well as if the healthcare cost trend rates are 1% lower or higher than the current healthcare cost trend rates:

	Healthcare		
	1% Decrease (4%)	Trend Rate (5%)	1% Increase (6%)
Net OPEB Liability	$ 747,805	$ 860,656	$ 1,002,220
Service Cost	16,373	22,849	31,692

	Discount Rate		
	1% Decrease (4%)	Current (5%)	1% Increase (6%)
Net OPEB Liability	$ 971,440	$ 860,656	$ 770,587
Service Cost	29,288	22,849	18,048

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended December 31, 2018:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at December 31, 2017	$ 900,917	$ 15,510	$ 885,407
Changes for the year:			
Service cost	22,849	-	22,849
Interest	49,281	-	49,281
Change in assumptions	(58,482)	-	(58,482)
Net investment income	-	(1,278)	1,278
Employer contributions	-	60,909	(60,909)
Benefit payments	(53,909)	(53,909)	-
Net changes	(40,261)	5,722	(45,983)
Balances at December 31, 2018	$ 860,656	$ 21,232	$ 839,424

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB – For the year ended December 31, 3018, the CRA recognized OPEB expense of $65,260. Deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2018, were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 9,560	$ -
Changes of assumptions	-	46,786
Differences between projected and actual earnings on investments	1,837	524
	$ 11,397	$ 47,310

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,	
2019	$ (5,852)
2020	(7,410)
2021	(11,413)
2022	(11,238)
	$ (35,913)

GASB Statement No. 74

OPEB Plan disclosures that impact the CRA's net OPEB liability using a reporting date of December 31, 2018, are summarized in this section except disclosures under GASB 74 that are identical to GASB 75 are not repeated.

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 203C of the Massachusetts General Laws.

Investment Rate of Return – For the year ended December 31, 2018, the annual money-weighted rate of return on investments, net of investment expense, was -7.64%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note J – Operating Leases

Facility Lease – The CRA leases office space in Cambridge, Massachusetts. Their previous lease agreement with the building owner concluded as of December 31, 2018. Under their subsequent sub-lease agreement which started March 1, 2019, monthly lease payments for the office space will be $6,250 and will continue through March 31, 2020. The minimum, annual lease commitments over the remaining lease term is are anticipated to be:

December 31,	Amount
2019	$ 56,250
2020	$ 18,750

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. Additionally, the CRA maintains some specific, financial commitments relative to the contribution or loaning of CRA cash assets at some point in the future, which are disclosed here:

- The CRA has a pre-existing agreement with the City of Cambridge, Massachusetts to provide $2,000,000 for the Foundry Project at some point during 2019.

- The CRA has agreed to loan up to $300,000 to a local entity relative to an affordable housing project. The loan recipient does not intent to drawdown funds against this loan until 2022.

Note M – Subsequent Year Events

<u>Sale of Development Rights</u> – In September 2019, a triggering event occurred, whereby the CRA is owed $20,630,711 from Boston Properties, LLC for the required Development Agreement fee for property located at 325 Main Street. This fee is based on the square footage of 223,518 for planned construction and relates to commercial use property. The Development Agreement calls for an Infill Development GFA fee of $92.30 per square foot, which is how the total fee was calculated. This revenue relates to 2019 as the fee is due once a building permit is issued, which is fully anticipated in October 2019.

<u>Purchase of Property</u> – In 2019, the CRA has made initial agreements to purchase a building located at 9399 Bishop Allen Drive in Central Square, for the purpose of renting out to commercial entities. As part of this project, the CRA is obtaining loan financing for approximately $7,000,000 to be used towards the purchase of the building along with existing CRA monies.

<u>Loan Program</u> – In November 2018, the CRA board voted to initiate a loan with JAS to improve on their affordable housing structures in the Wellington-Harrington project area in the amount of $300,000. The final loan docs were not signed until spring 2019. JAS does not want to draw the money down until 2022, and the CRA fully expects to be paid back this loan.

Note N – Implementation of GASB Pronouncements

<u>Current Year Implementations</u>

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 had previously elected to early implement this standard in fiscal year 2017.

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.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2020 (fiscal year 2021). 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, 2018

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

	Year Ended December 31, 2018	2017	2016	2015	2014
CRA's proportion of the net pension liability (asset)	0.19%	0.16%	0.12%	0.08%	0.05%
CRA's proportionate share of the net pension liability	$ 606,895	$ 290,744	$ 284,070	$ 222,380	$ 78,667
CRA's covered-employee payroll *	$ 439,975	$ 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	137.9%	79.5%	107.1%	122.5%	72.0%
Plan fiduciary net position as a percentage of the total pension liability	79.89%	88.02%	83.08%	79.60%	87.51%

SCHEDULE OF THE CRA'S CONTRIBUTIONS TO PENSION PLAN

	Year Ended December 31, 2018	2017	2016	2015	2014
Actuarially determined contribution	$ 81,458	$ 64,851	$ 47,698	$ 30,041	$ 17,738
Contributions in relation to the actuarially determined contribution	81,458	64,851	47,698	30,041	17,738
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
CRA's covered-employee payroll	$ 439,975	$ 365,915	$ 265,156	$ 181,461	$ 109,314
Contributions as a percentage of covered-employee payroll	18.51%	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, 2018

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

	December 31, 2018	December 31, 2017
Total OPEB liability:		
Service cost	$ 22,849	$ 19,251
Interest	49,281	39,355
Differences between expected and actual experience	(58,482)	20,678
Changes in assumptions	-	-
Benefit payments	(53,909)	(66,619)
Net change in total OPEB liability	(40,261)	12,665
Total OPEB liability - beginning of year	900,917	888,252
Total OPEB liability - end of year (a)	$ 860,656	$ 900,917
Plan fiduciary net position:		
Contributions - employer	$ 60,909	$ 80,619
Net investment income (loss)	(1,278)	1,510
Benefit payments	(53,909)	(66,619)
Net change in Plan fiduciary net position	5,722	15,510
Plan fiduciary net position - beginning of year	15,510	-
Plan fiduciary net position - end of year (b)	$ 21,232	$ 15,510
Net OPEB liability - end of year (a) - (b)	$ 839,424	$ 885,407
Plan fiduciary net position as a percentage of the total OPEB liability	2.47%	1.72%
Covered-employee payroll	$ 403,194	$ 391,450
Net OPEB liability as a percentage of covered-employee payroll	208.19%	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, 2018

SCHEDULE OF CONTRIBUTIONS
LAST 10 FISCAL YEARS

	December 31, 2018	December 31, 2017
Actuarially-determined contribution	$ 74,854	$ 71,434
Contributions in relation to the actuarially-determined contribution	(60,909)	(80,619)
Contribution deficiency (excess)	$ 13,945	$ (9,185)
Covered-employee payroll	$ 403,194	$ 391,450
Contribution as a percentage of covered-employee payroll	15.11%	20.59%
Valuation Date	January 1, 2017	January 1, 2017
Amortization Period	30 years	30 years
Investment rate of return	5.37%	4.98%
Municipal Bond Rate	3.64%	3.16%
Single Equivalent Discount Rate	5.00%	4.50%
Inflation	2.75%	2.75%
Healthcare cost trend rates	5.00%	5.00%
Salary increases	3.00%	3.00%
Actuarial Cost Method	Individual Entry Age Normal (all years)	
Asset Valuation Method	Market Value of Assets as of Reporting Date (all years)	

SCHEDULE OF INVESTMENT RETURNS
LAST 10 FISCAL YEARS

	December 31, 2018	December 31, 2017
Annual money-weighted rate of return, net of investment expense	-7.64%	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, 2018

	Expense Categories							
Allocated Project Costs	**Salaries**	**Community Outreach**	**Marketing & Professional Development**	**Office Management**	**Property Management**	**Professional Services**	**Redevelopment Investments**	**Totals**
Alewife	$ 4,890	$ -	$ -	$ -	$ -	$ 15	$ -	$ 4,905
Ames Street	3,203	-	-	-	-	-	-	3,203
Economic Development	29,814	-	128	8	-	38,034	-	67,984
Forward Fund	13,878	-	438	177	-	2,600	136,143	153,236
Foundry	70,799	3,172	337	46	-	62,220	(3,750)	132,824
Grand Junction	727	-	-	-	-	-	-	727
KS Open Space	44,260	-	-	67	41,546	8,823	151,747	246,443
KSTEP	-	-	-	-	-	25,143	-	25,143
MXD Design	47,814	-	217	10	-	4,335	-	52,376
Parcel 6	9,844	-	-	34	3,602	-	6,888	20,368
Stragetic Planning	22,855	-	3,071	-	-	13,778	-	39,704
Transportation	37,619	-	589	132	-	215,514	-	253,854
Wellington-Harrington	2,560	300	8	242	-	-	-	3,110
Windsor	5,345	15	244	-	-	4,350	-	9,954
Totals	$ 293,608	$ 3,487	$ 5,032	$ 716	$ 45,148	$ 374,812	$ 291,028	$ 1,013,831

See accompanying independent auditor's report.

ROSELLI, CLARK & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2018, 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 3, 2019.

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 3, 2019

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

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

Management Letter

Year Ended December 31, 2018

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

MANAGEMENT LETTER
YEAR ENDED DECEMBER 31, 2018

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ROSELLI, CLARK & ASSOCIATES
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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, 2018, 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.

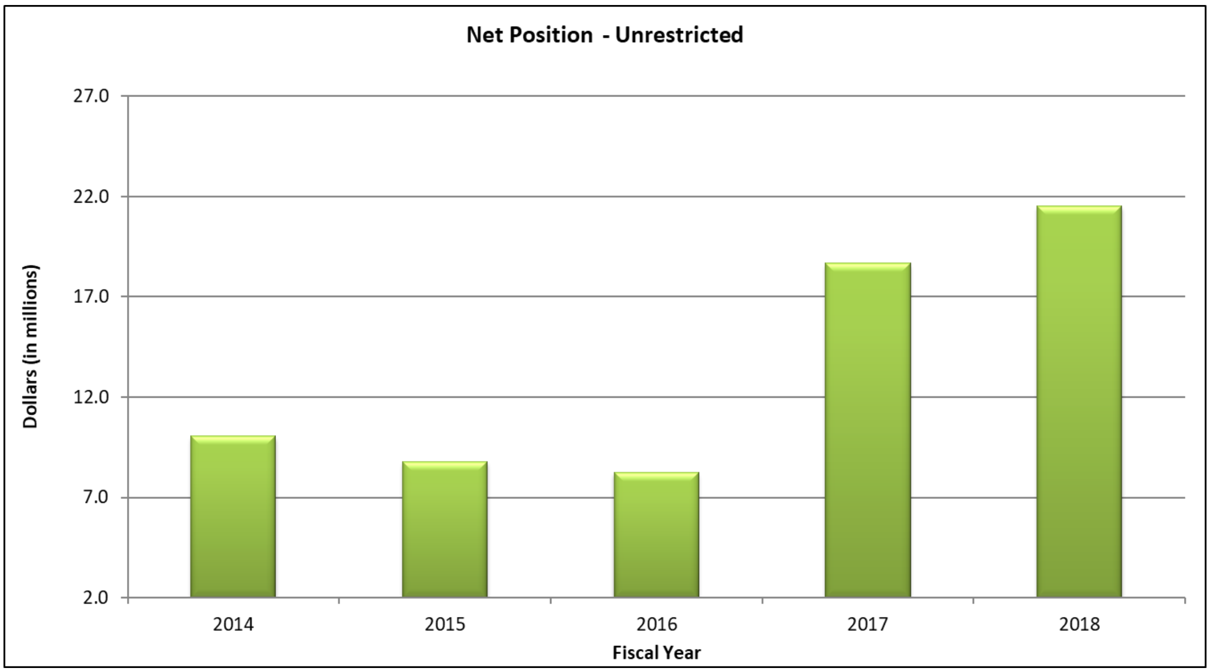
Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 3, 2019

I. OVERVIEW

The CRA continues to morph into a stronger and revived entity with new and progressive financial activities being added annually. Significant private development within the Kendall Square Urban Renewal Project (KSURP) area has and continues to generate financial resources with development right proceeds which are anticipated to exceed $50 million within a three-year period. It is from these proceeds and other newer revenue sources being pursued that the CRA intends to maintain its operations for years to come.

As such the CRA's available, unrestricted net position at the end of 2018 reflects the continued growth of available financial resources for future project funding.



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 $6.0 million and $9.0 million, respectively as of December 31, 2018.

During the fiscal year ended December 31, 2018, the CRA's net position increased about $2.9 million. This was primarily the result of recording recurring revenues from investment earnings that generated nearly $0.4 million, and one-time revenues of nearly $4.8 million from the sale of developer rights. Total expenses were about $2.5 million which was over $1.0 million higher than the previous year expenses. Some of the expenses are representative of non-cash, current year decreases from the provision of non-collectability on a loan in the future for over $0.5 million and donation of land to the City of Cambridge which had previously held a value of nearly $0.15 million by the CRA as a parcel available for development. Project consulting expenses increased approximately $0.35 million which was about a 50% increase over such costs in the prior year. Such project expenses are anticipated to increase in subsequent years, as the CRA will be looking to broaden and expand to implement various ideas to support and encourage development in the KSURP area, as well as community investments citywide.

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 annual expense 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.

In conclusion, we would note that the CRA's level of accounting and financial reporting is rapidly changing to encompass a much broader range of financial transactions which are more advanced and challenging than has been the normal for the CRA over the last dozen years or more. The CRA is offering loans and payment agreements with multi-year payback options, restriction/earmarking and tracking of cash funds for projects, investment of monetary holdings, issuance of debt as the loan recipient for project financing, landlord agreements and commitments, and potentially more types of transactions that may only be an idea or future idea at this time, but that will require the CRA to adapt its financial reporting, processing, and monitoring. Therefore, we encourage the CRA not to overlook both the internal and external financial support resources that will be necessary to sustain the accounting as it adapts to the forthcoming changes so that the financial side can aid in making project ideas a reality in the future.

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

Fair Value Investment Reporting on Project Funds (updated from prior year)

With the significant influx of operational funds over the last couple of years, 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. In order to maximize the earmarked amounts, a more active approach to investing those monetary funds was started. One of the results noted coming out of 2017 and into 2018, is that more conservative portfolios focusing investments on a stronger fixed income-based model have resulted in reductions to investment balances when factoring in unrealized losses as required by the GASB's directed reporting of investments. By the end of 2018, there were significant recovery and some gains on investments noted in comparison to the 2017 results based on investment market conditions at that time.

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 has been left challenged, as lost principal resulting from unrealized losses generated some confusion within many entities. Generally, 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 increases in interest rates offered in 2017/2018 by new fixed income instruments that pay out greater interest relegating older, lower interest investments less desirable. In 2018 and into 2019, this later trend was diminished as interest rates decreased on new investment offerings. 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, currently, 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. 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.

Municipal Data Breaches (General Informational Comment to All Clients)

Many instances of issues within Massachusetts municipalities with regards to Information Technology (IT) data security risks on their networks have been reported over the last five years, and we are now enhancing that alert with our clients to include electronic hardware. While municipal entities have embraced and implemented technology at various paces, the one given is that every year represents an increasing reliance on technology, software, and internet accessibility in order to complete tasks more efficiently and to meet the myriad of tracking and compliance reporting requirements. Given that many cities, towns and districts lack an internal, structured information security program, their systems are increasingly at risk of attacks; and those committing the breaches show little to no preference as to the size of the community or entity. Most have resulted in the unauthorized access or lockout of server access or data, fraudulent invoicing, and payroll manipulation; however, with the increasing use of portable electronic devices such as laptops, tablets, and "smart" cellular phones, the theft of hardware containing data outside of the office is adding to such risk "beyond the desk".

The Commonwealth of MA Department of Revenue has recently taken to sending municipal entities information about IT security and the need to be vigilant as a significant number of municipal entities have been attacked over the last 15 months (some you may not have heard about publicly), and there is no assumption that those who might perpetrate such attacks have any intention of slowly down. Therefore, the best way to prevent becoming a victim is to provide an adequate defensive wall and avoid high risk interactions over the internet and e-mail.

The Authority, together with its outside IT management provider, should take a proactive approach to IT security. Continually performing updates on IT security appliances and software is a significant prevention measure, as well as initiating formal policies and procedures regarding IT security, and training employees on how to avoid being a victim of computer fraud.

CRA Management Response:

In July 2019, the CRA Operations Director attended a Massachusetts Certified Public Purchasing Official (MCPPO) class on cybersecurity. The CRA's IT consultant has recently installed several cybersecurity modules onto the CRA network. Before the year is out, the IT consultant will hold a cybersecurity seminar for CRA staff.

III. OPERATIONAL COMMENTS

Governmental Accounting Software (updated from prior year)

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 (additionally 2018 had more such revenues and in 2019 it is also anticipated that another very significant influx of proceeds will occur), 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 observation that the CRA is continuing to rapidly transition its financial activities beyond just basic bill payments and general payroll for office operations; therefore, we have concerns that Quickbooks is no longer a long-term viable accounting system software for the CRA. Fund and project-based accounting is not basic or easy accounting. Accordingly, specialized accounting software specifically designed for those purposes are a larger financial investment than a retail version of Quickbooks. Therefore, 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.