

**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, 2020



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

**TABLE OF CONTENTS**  
**DECEMBER 31, 2020**

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	<u>Page(s)</u>
<u>INDEPENDENT AUDITORS' REPORT</u> .....	1 - 2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u> .....	3 - 7
<u>BASIC FINANCIAL STATEMENTS</u>	
Statement of Net Position .....	8
Statement of Revenues, Expenses and Changes in Net Position .....	9
Statement of Cash Flows .....	10
Statement of Fiduciary Net Position .....	11
Statement of Changes in Fiduciary Net Position.....	12
Notes to Basic Financial Statements .....	13 - 30
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule of the CRA's Proportionate Share of the Net Pension Liability .....	31
Schedule of the CRA's Contributions to Pension Plan .....	31
Schedule of Changes in Net OPEB Liability and Related Ratios .....	32
Schedule of Contributions – OPEB.....	33
Schedule of Investment Returns – OPEB.....	33
<u>SUPPLEMENTARY INFORMATION</u>	
Supplementary Information – Expense Allocation: Project Costs .....	34



## **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, 2020, 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. 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, 2020, 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.

*Roselli Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
October 27, 2021

## 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, 2020. 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 over \$56.9 million (*total net position*). Of this amount, almost \$40.5 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 further the development of the Kendall Square Urban Renewal Area, the CRA Board of Directors had dedicated, in aggregate, nearly \$13.0 million of net position for use on the KSTEP and Foundry project programs. As of December 31, 2020, \$2 million of project expenses have been recorded to these restricted funds programs. Funds are anticipated to be disbursed based on pre-established milestones in the future.
- The CRA's total net position remained consistent with the prior year as operations were virtually flat. Contributing to this was that projects were delayed, and the applicable expenses were postponed, largely due to the impact of COVID-19.
- The CRA's assets are primarily comprised of cash and cash equivalents as well as investments; in aggregate these totaled approximately \$50 million, or approximately 76% of total assets.
- Liabilities mainly consist of over \$6.8 million of outstanding debt that was used to purchase the Bishop Allen Property for redevelopment investments.
- The CRA issued over \$1.5 million of their funds for issuance of individual loans of up to \$15,000 which would be interest free and payable over 5 years to businesses impacted by the COVID-19 pandemic. The CRA loans were made available to any business city-wide and was not restricted to the Kendall Square area.

### **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 over \$56.9 million at the close of the most recent fiscal year. This was consistent with the prior year balance as the Authority was being conservative with spending in the current year due to the worldwide COVID-19 pandemic.

The condensed statement of net position is as follows:

	December 31, 2020	December 31, 2019
<u>Assets</u>		
Current and other assets	\$ 55,115,507	\$ 57,563,270
Capital assets, net	10,283,544	9,872,023
Total assets	<u>65,399,051</u>	<u>67,435,293</u>
<u>Deferred Outflows of Financial Resources</u>	<u>257,299</u>	<u>238,660</u>
<u>Liabilities</u>		
Long-term liabilities	7,813,801	7,975,585
Other liabilities	576,140	2,256,055
Total liabilities	<u>8,389,941</u>	<u>10,231,640</u>
<u>Deferred Inflows of Financial Resources</u>	<u>330,474</u>	<u>326,513</u>
<u>Net Position</u>		
Net investment in capital assets	3,447,484	2,895,066
Restricted for programs	13,000,000	13,000,000
Unrestricted	<u>40,488,451</u>	<u>41,220,734</u>
Net Position	<u>\$ 56,935,935</u>	<u>\$ 57,115,800</u>

The largest portion of the CRA's net position, almost \$40.5 million, consists 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 CRA's oversight members.

Net position also includes restricted program funds reported at fair value totaling almost \$13.0 million (allocated to the KSTEP and Foundry project programs in initial amounts of approximately \$6.0 million and \$7 million, respectively). The restricted value of these funds is anticipated to be impacted annually as project costs are incurred; \$2 million has been expensed against these restricted funds as of December 31, 2020.

Also, a portion of the CRA's net position (over \$3.4 million) is reflected as its net investment in capital assets (e.g., land and improvements, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. 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.

The Authority's assets are primarily comprised of cash and cash equivalents as well as investments of approximately \$50 million, or approximately 76% of total assets.

Liabilities mainly consist of \$6.8 million of outstanding debt was used to purchase the 93-99 Bishop Allen Drive property for redevelopment investments.

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

	<u>Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
<u>Revenues</u>		
Program revenues:		
Sale of development rights	\$ -	\$ 20,630,710
Rental income	439,992	189,505
Grants, contributions and donations	-	2,500
Other income	5,679	39,728
Investment income	<u>1,973,911</u>	<u>2,970,784</u>
Total revenues	2,419,582	23,833,227
 <u>Expenses</u>		
Administrative	598,167	613,122
Professional services	137,469	136,071
Project consulting	1,232,389	3,250,908
Property maintenance	123,651	79,872
Interest expense	223,492	37,689
Depreciation	<u>284,279</u>	<u>96,785</u>
Total expenses	2,599,447	4,214,447
 Change in net position	 (179,865)	 19,618,780
 Net position - beginning of year	 <u>57,115,800</u>	 <u>37,497,020</u>
 Net position - end of year	 <u>\$ 56,935,935</u>	 <u>\$ 57,115,800</u>

The CRA's total net position remained consistent with prior year as expenses exceeded revenues by approximately \$0.2 million. As previously noted, the CRA took a conservative position to the monitoring of its expenses due to the uncertainties regarding COVID-19.

Investment income was significantly lower than the prior year due to an investment rebalance to create a more conservative managed account due to COVID-19 and its effects.

Operating expenses decreased significantly; over \$1.6 million. Hand in hand with the recent increase in available financial resources has been a vigorous energizing of redevelopment activities which had resulted in a collateral increase in operating expenses in the prior year. This was fueled by the \$2.0 million that was expensed in the prior year related to the Foundry Project previously mentioned; there were no expenses recognized on this project in the current year.

### **Capital Asset and Debt Administration**

**Capital Assets** - The CRA's investment in capital assets as of December 31, 2020, was approximately \$10.3 million, net of accumulated depreciation. This investment in capital assets includes land, improvements to the land, and machinery and equipment. Net capital assets increased mainly due to the continued renovations of the building and property located at 93-99 Bishop Allen Drive previously mentioned that was bought by the CRA in the prior fiscal year. This work is expected to continue significantly in the subsequent year.

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.

Additional information on the CRA's net capital assets can be found in the notes to the basic financial statements.

**Long-Term Debt** – At December 31, 2020, the CRA's total long-term debt was over \$6.8 million at the end of the current fiscal year. This is a decrease of over \$0.1 million as regular scheduled payments were made on the loan received in the prior year that the CRA took out to partially finance the purchase of the property previously mentioned.

Additional information on the CRA's long-term debt can be found in the notes to the financial statements.

### **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 next earliest, expected significant inflow of available financial resources from the sale of development rights anticipated for 2023 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, 8<sup>th</sup> Floor, Cambridge, Massachusetts 02142.

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

**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2020**

<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 12,848,606
Investments	37,119,133
Accounts receivables	484,644
Other assets	32,895
Total current assets	50,485,278
Noncurrent assets:	
Accounts receivable	3,022,728
Notes receivable (net of allowance for doubtful collection of \$574,177)	1,541,716
Development properties held for sale	65,785
Capital assets, not being depreciated	2,261,553
Capital assets, net of accumulated depreciation	8,021,991
Total noncurrent assets	14,913,773
<b>Total Assets</b>	65,399,051
<b>Deferred Outflows of Financial Resources</b>	
Related to net pension liability	191,670
Related to net other postemployment benefits liability	65,629
<b>Total Deferred Outflows of Financial Resources</b>	257,299
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	372,953
Accrued expenses	36,280
Current portion of compensated absences	20,770
Current portion of long-term note payable	146,137
Total current liabilities	576,140
Noncurrent liabilities:	
Long-term note payable	6,689,923
Compensated absences	62,308
Net pension liability	328,664
Net other postemployment benefits liability	732,906
Total noncurrent liabilities	7,813,801
<b>Total Liabilities</b>	8,389,941
<b>Deferred Inflows of Financial Resources</b>	
Related to net pension liability	181,033
Related to net other postemployment benefits liability	149,441
<b>Total Deferred Inflows of Financial Resources</b>	330,474
<b>Net Position</b>	
Net investment in capital assets	3,447,484
Restricted for programs - KSTEP	6,000,000
Restricted for programs - Foundry	7,000,000
Unrestricted	40,488,451
<b>Total Net Position</b>	\$ 56,935,935

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, 2020**

<b>Operating Revenues</b>	
Sale of development rights	\$ -
Rental income	439,992
Grants	-
Other income	5,679
Total Operating Revenues	445,671
 <b>Operating Expenses</b>	
Administrative	598,167
Professional services	137,469
Project consulting	1,232,389
Property management	123,651
Depreciation	284,279
Total Operating Expenses	2,375,955
<b>Operating Income</b>	(1,930,284)
 <b>Nonoperating Revenues (Expenses)</b>	
Investment income	1,973,911
Interest expense	(223,492)
Total Nonoperating Revenues (Expenses)	1,750,419
<b>Change in Net Position</b>	(179,865)
<b>Net Position - Beginning of year</b>	57,115,800
<b>Net Position - End of year</b>	\$ 56,935,935

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, 2020**

<b>Cash Flows from (used in) Operating Activities</b>	
Sale of development rights	\$ -
Grants	-
Rental income and other receipts	21,463,173
COVID recovery loans issued to other parties	(1,460,000)
Payments to vendors	(2,919,348)
Payments for wages and benefits	(892,699)
<b>Net Cash Provided by Operating Activities</b>	<b>16,191,126</b>
 <b>Cash Flows from (used in) Capital and Related Financing Activities:</b>	
Proceeds from the issuance of long-term debt	-
Principle repayments on long-term debt	(140,897)
Interest expense	(223,492)
Acquisition and construction of capital assets	(695,800)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(1,060,189)</b>
 <b>Cash Flows from (used in) Investing Activities</b>	
Investment of operating cash, net	(4,644,240)
Investment income	1,973,911
<b>Net Cash Used in Investing Activities</b>	<b>(2,670,329)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>12,460,608</b>
 <b>Cash and Cash Equivalents</b>	
Beginning of year	387,998
End of year	<b>\$ 12,848,606</b>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities</b>	
Operating income	\$ (1,930,284)
 Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:	
Provision for depreciation	284,279
Changes in assets, deferred outflows, liabilities and deferred inflows:	
Accounts receivable	21,017,502
Note receivable	(1,460,000)
Other assets	(4,891)
Deferred outflows of resources	(18,639)
Accounts payable and accrued expenses	(1,692,961)
Deferred compensation	31,224
Related to net pension liability	(127,112)
Related to net other postemployment benefits liability	88,047
Deferred inflows of resources	3,961
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 16,191,126</b>

See accompanying notes to basic financial statements.

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

**STATEMENT OF FIDUCIARY NET POSITION**  
**DECEMBER 31, 2020**

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	<u>Other Postemployment Benefits Trust (OPEB) Fund</u>
<b>Assets</b>	
Investments	<u>\$ 44,170</u>
<b>Total Assets</b>	<u>44,170</u>
<b>Liabilities</b>	
	<u>-</u>
<b>Total Liabilities</b>	<u>-</u>
<b>Net Position</b>	
Held in trust for other postemployment benefits	<u>44,170</u>
<b>Total Net Position</b>	<u><u>\$ 44,170</u></u>

See accompanying notes to basic financial statements.

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

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED DECEMBER 31, 2020**

	Other Postemployment Benefits Trust (OPEB) Fund
<b>Additions</b>	
Contributions:	
Employer	\$ 46,887
Total contributions	46,887
Investment income:	
Interest and dividends	2,753
Net gain on fair value of investments	1,971
Net investment earnings	4,724
Other income	-
<b>Total Additions</b>	<b>51,611</b>
<b>Deductions</b>	
Benefits paid	39,887
<b>Total Deductions</b>	<b>39,887</b>
<b>Change in Net Position</b>	11,724
<b>Net Position - Beginning of Year</b>	32,446
<b>Net Position - End of Year</b>	<b>\$ 44,170</b>

See accompanying notes to basic financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020**

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**1. Summary of Significant Accounting Policies**

The basic financial statement of the Cambridge Redevelopment Authority (“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.

**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.

**B. Basis of Accounting and Financial Statement 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.

**C. Assets, Liabilities, and Deferred Outflows/Inflows of Resources and Net Position**

Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. 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 Authority 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 Authority’s best estimate of what market participants would use in pricing the investment at the measurement date.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value (“NAV”). These are investments for which a readily determinable fair value is not available, such as member units or an ownership interest in partners’ capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

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

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. 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, 2020, 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.

Long-Term Debt - Long-term debt is reported as liabilities in these basic financial statements. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material.

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.

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 rents commercial space within a building located at 93-99 Bishop Allen Drive that it purchased during 2019. Additionally, other open space property owned by the CRA is available for temporary rent 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.

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.

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.

## II. Detailed Notes to All Funds

### A. 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 totaled \$12,848,606, and the bank balance was \$12,970,223. Of the CRA's bank balance, \$12,026,755 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 \$13,721,445 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 \$23,244,891. The CRA does not have a deposit policy for custodial credit risk relative to investments.

***Fair Value Measurement: Investments*** - 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, 2020:

	Totals	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b><u>Investments by Fair Value Level</u></b>				
Debt securities:				
U.S. Government obligations	\$ 19,909,187	\$ 7,391,326	\$ 12,517,861	\$ -
Foreign Issuance	1,019,120	-	1,019,120	-
Corporate bonds	2,316,584	2,316,584	-	-
Negotiable certificates of deposit	734,930	-	734,930	-
Total debt securities	23,979,821	9,707,910	14,271,911	-
Equity securities:				
Common stock	13,721,445	13,721,445	-	-
Total equity securities	13,721,445	13,721,445	-	-
Total Investments by Fair Value Level	37,701,266	\$ 23,429,355	\$ 14,271,911	\$ -
<b><u>Investments Measured at Amortized Cost</u></b>				
Money market mutual funds	196,967			
Total investments at fair value	\$ 37,898,233			

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, 2020, the CRA had the following investments with maturities:

Investment Type	Fair Value	Time Until Maturity (Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. government obligations	\$ 19,909,187	\$ 11,449,266	\$ 8,459,921	\$ -	\$ -
Foreign Issuance	1,019,120	-	1,019,120	-	-
Corporate fixed income securities	2,316,584	453,668	1,372,445	490,471	-
Certificates of deposit	734,930	734,930	-	-	-
Total Investments with Maturities	23,979,821	\$ 12,637,864	\$ 10,851,486	\$ 490,471	\$ -
<b><u>Other Investments:</u></b>					
Equities	13,721,445				
Money market mutual funds	196,967				
Total Investments	\$ 37,898,233				

**Concentration of Credit Risk** – The CRA does not place a limit on the amount invested in any one issuer. No issuer represented more than 5% of the CRA’s total investments at December 31, 2020.

**Credit Risk** – The CRA has not adopted a formal policy related to credit risk ratings limits. As of December 31, 2020, the credit quality ratings of the CRA’s debt securities were as follows:

Quality Ratings (Moody)	U.S. Government Obligations	Foreign Issuance	Corporate Fixed Income	Certificates of Deposit	Totals
Aaa	\$ 19,909,187	\$ 1,019,120	\$ -	\$ -	\$ 20,928,307
Aa3	-	-	471,484	-	471,484
A1	-	-	487,379	-	487,379
A2	-	-	867,250	-	867,250
Baa1	-	-	490,471	-	490,471
Not rated	-	-	-	734,930	734,930
Totals - All	<u>\$ 19,909,187</u>	<u>\$ 1,019,120</u>	<u>\$ 2,316,584</u>	<u>\$ 734,930</u>	<u>\$ 23,979,821</u>

**B. 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	Due Within One Year
Rental income	\$ 51,376	\$ -	\$ 51,376	\$ 51,376
Reimbursable expenses	1,450	-	1,450	1,450
Proceeds from development rights	3,454,546	-	3,454,546	431,818
Total	<u>\$ 3,507,372</u>	<u>\$ -</u>	<u>\$ 3,507,372</u>	<u>\$ 484,644</u>

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 Fiscal Year 2019, 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 eight years.

**C. 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	Due Within One Year
Affordable housing loan	\$ 568,810	\$ (568,810)	\$ -	\$ -
COVID-19 Loans	1,460,000	-	1,460,000	-
Line of Credit	87,083	(5,367)	81,716	-
Total	<u>\$ 2,115,893</u>	<u>\$ (574,177)</u>	<u>\$ 1,541,716</u>	<u>\$ -</u>

The Affordable housing loan 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.

The Line of Credit note was issued in April 2019 to a social services organization in the City to bring new housing to the organization's site, as well as, building upgrades and renovations to its historic building and parking lot. The Agreement provides for a loan amount of up to \$250,000 that will be drawn down by the organization as needed for the project and will be paid back by the organization with revenue earned after the project is completed.

To support local businesses during the COVID-19 worldwide pandemic, the Authority provided 104 interest-free loans to businesses with the City of Cambridge. These were provided to business that were affected in a negative way from the pandemic. Repayment of these loans will start in the latter half of 2021 and the loans will mature in 2025. All loans will be payable in eight semiannual payments. If the first seven principal payments are paid on a timely basis, the 8<sup>th</sup> payment will be waived by the Authority.

#### D. Capital Assets

Capital assets activity for the year ended December 31, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,565,753	\$ -	\$ -	\$ 1,565,753
Construction in process	-	695,800	-	695,800
Total capital assets not being depreciated	<u>1,565,753</u>	<u>695,800</u>	<u>-</u>	<u>2,261,553</u>
Capital assets being depreciated:				
Improvements	1,035,817	-	-	1,035,817
Building	7,470,818	-	-	7,470,818
Total capital assets being depreciated	<u>8,506,635</u>	<u>-</u>	<u>-</u>	<u>8,506,635</u>
Less accumulated depreciation for:				
Improvements	(138,108)	(34,527)	-	(172,635)
Building	(62,257)	(249,752)	-	(312,009)
Total accumulated depreciation	<u>(200,365)</u>	<u>(284,279)</u>	<u>-</u>	<u>(484,644)</u>
Total capital assets being depreciated, net	<u>8,306,270</u>	<u>(284,279)</u>	<u>-</u>	<u>8,021,991</u>
Capital assets, net	<u>\$ 9,872,023</u>	<u>\$ 411,521</u>	<u>\$ -</u>	<u>\$ 10,283,544</u>

## E. Long-Term Obligations

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due within one year
Long-term note payable	\$ 6,976,957	\$ -	\$ (140,897)	\$ 6,836,060	\$ 146,137
Compensated absences	51,854	41,587	(10,363)	83,078	20,770
Net pension liability	455,776	257,228	(384,340)	328,664	-
Net OPEB liability	644,859	284,375	(196,328)	732,906	-
Total Long-Term Obligations	<u>\$ 8,129,446</u>	<u>\$ 583,190</u>	<u>\$ (731,928)</u>	<u>\$ 7,980,708</u>	<u>\$ 166,907</u>

Notes payable outstanding at December 31, 2020, were as follows:

Description of Issue	Maturing Year	Interest Rate	Beginning Balance	Additions	Maturities and Deductions	Ending Balance
Bank note payable	2034	3.18%	\$ 6,976,957	\$ -	\$ (140,897)	\$ 6,836,060
Total			<u>\$ 6,976,957</u>	<u>\$ -</u>	<u>\$ (140,897)</u>	<u>\$ 6,836,060</u>

Debt Service – Debt service requirements at December 31, 2020, is as follows:

Year Ending December 31,	Bank Note Payable	
	Principal	Interest
2021	\$ 146,137	\$ 218,252
2022	150,919	213,470
2023	155,857	208,532
2024	160,382	204,007
2025	166,205	198,184
2026-2030	915,707	906,238
2031-2035	<u>5,140,853</u>	<u>587,852</u>
Total	<u>\$ 6,836,060</u>	<u>\$ 2,536,535</u>

## F. Operating Lease

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 February 28, 2022. The minimum, annual lease commitments over the remaining lease term are anticipated to be:

December 31,	Amount
2021	\$ 75,000
2022	12,500
Total	<u>\$ 87,500</u>

### **III. Other Information**

#### **A. Retirement System**

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, 2020, were issued and are available at the Retirement Office, 100 Cambridge Park Drive, Suite 101, Cambridge, MA 02140.

Current membership in the Retirement System for all employers as of January 1, 2020, was as follows:

Retirees and beneficiaries receiving benefits	2,247
Terminated plan members entitled to, but not receiving benefits	498
Terminated plan members with a vested right to a deferred or immediate benefit	136
Active plan members	3,040
Total	<u>5,921</u>

**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. Teachers and certain administrative personnel employed by the school department participate in a separate pension plan administered by the Massachusetts Teachers' Retirement System, which is the legal responsibility of the Commonwealth of Massachusetts. 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 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 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 \$96,072 to the Retirement System in fiscal year 2020, which equaled the actuarially determined contribution requirement for the fiscal year. The CRA’s contributions as a percentage of covered payroll was approximately 19.64% in fiscal year 2020.

Net Pension Liability – At December 31, 2020, the CRA reported a liability of \$328,664 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2020, 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, 2020. There were no material changes made in this update to the actuarial assumptions (see below) nor were there any 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, 2020.

Pension Expense – The CRA recognized \$65,558 in net pension expense in the statement of activities for the year ended December 31, 2020.

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2020, 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	\$ 5,492	\$ 37,993
Net difference between projected and actual earnings on pension plan investments	-	142,601
Changes in assumptions	104,485	-
Changes in proportion and differences between CRA contributions and proportionate share of contributions	81,693	439
Total	\$ 191,670	\$ 181,033



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

Year Ended December 31,	
2021	\$ 6,973
2022	46,480
2023	(38,944)
2024	(7,655)
2025	3,783
Total	<u>\$ 10,637</u>

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2020. The significant actuarial assumptions used in the January 1, 2020; actuarial valuation included:

Actuarial Cost Method	Entry age normal cost method
Amortization Method	Prior year's contributions increased by 5.85%, plus an additional contribution of \$300,000
Asset Valuation Method	Market value of assets
Inflation Rate	3.0% per annum
Investment Rate of Return	7.5% per annum
Projected Salary Increases	4.5% per annum
Cost of Living Adjustments	3.0% on the first \$16,000 of benefits
Pre-Retirement Mortality	Group 1 and 2: Pub-2010 General Employee Amount-Weighted Mortality Table set forward one year projected generationally using Scale MP-2019 Group 4: Pub-2010 Safety Employee Amount-Weighted Mortality Table Projected generationally using Scale MP-2019
Healthy Retiree Mortality	Group 1 and 2: Pub-2010 General Healthy Retiree and Contingent Survivor Amount-Weighted Mortality Tables set forward one year projected generationally using Scale MP-2019 Group 4: Pub-2010 Safety Healthy Retiree and Contingent Survivor Amount-Weighted Mortality Tables projected generationally using Scale MP-2019
Disabled Retiree Mortality	Group 1 and 2: Pub-2010 General Healthy Retiree Amount-Weighted Mortality Tables set forward one year projected generationally using Scale MP-2019 Group 4: Pub-2010 Disabled Retiree Amount-Weighted Mortality Table projected generationally using Scale MP-2019

Discount Rate – The discount rate used to measure the total pension liability was 7.25%. 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 7.25%). 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%	-0.19%
Domestic equity	28.00%	6.28%
International developed markets equi	10.00%	7.00%
International emerging markets equit	10.00%	8.82%
Core fixed income	10.00%	0.38%
High yield fixed income	10.00%	2.97%
Real estate	11.00%	3.50%
Commodities	3.00%	3.45%
Hedge fund, GTAA, Risk parity	5.00%	2.35%
Private equity	13.00%	10.11%
Total	100.00%	

Sensitivity Analysis – The following presents the CRA’s proportionate share of the net pension liability calculated using the discount rate of 7.25% as well as the CRA’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
CRA's proportionate share of the net pension liability	\$ 733,741	\$ 328,664	\$ (11,127)

## B. Other Postemployment Benefits

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

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

OPEB Plan disclosures that impact the CRA’s net OPEB liability using a measurement date of December 31, 2020, are summarized as follows:

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of the actuarial valuation date of January 1, 2019:

Inactive employees or beneficiaries	
currently receiving benefits	10
Active employees	<u>5</u>
Total	<u>15</u>

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, 2020, the CRA’s average contribution rate was 8.97% of covered-employee payroll.

Net OPEB Liability – The CRA’s net OPEB liability was measured as of December 31, 2020, using an actuarial valuation as of January 1, 2019. The components of the net OPEB liability of the CRA at December 31, 2020, were as follows:

Total OPEB liability	\$	777,076
Plan Fiduciary Net Position		<u>(44,170)</u>
Net OPEB liability	\$	<u>732,906</u>
Plan Fiduciary Net Position as a percentage of total liability		5.7%

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	5.84%, net of OPEB plan investment expense, including inflation
Municipal Bond Rate	1.93% as of December 31, 2020
Single Equivalent Discount Rate	4.50%, net of OPEB plan investment expense including inflation
Inflation	2.50% annually as of December 31, 2020 and for future periods
Salary Increases	3.00% annually as of December 31, 2020 and for future periods
Cost of Living Adjustment	Not applicable
Pre-Retirement Mortality	RP-2014 Employees Mortality Table for Blue Collar Employees projected generationally with scale MP-2016 for males and females
Post-Retirement Mortality	RP-2014 Healthy Annuitant Mortality Table Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females
Disabled Mortality	RP-2014 Healthy Annuitant Mortality Table for Blue Collar Healthy Annuitants projected generationally with scale MP-2016 for males and females (set forward 1 year)

***Discount Rate*** – The discount rate used to measure the total OPEB liability was 4.50% which represented a blend of the yield or index rate of 1.93% at December 31, 2020, 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 5.84%. The discount rate was decreased from 5.5% 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 5.84% represents a decrease over the prior year rate of 6.08%.

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	37.10%	4.90%
Domestic Equity - Small/Mid Cap	0.00%	5.40%
International Equity - Developed Market	15.90%	5.32%
International Equity - Emerging Market	0.00%	6.26%
Domestic Fixed Income	39.00%	1.40%
International Fixed Income	0.00%	1.30%
Alternatives	0.00%	6.32%
Real Estate	8.00%	6.25%
Cash	0.00%	0.00%
	100.00%	
Real rate of return		3.71%
Inflation assumption		2.50%
Total nominal rate of return		6.21%
Investment expense		-0.37%
Net investment return		5.84%

*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 (3.5%)	Trend Rate (4.5%)	1% Increase (5.5%)
Net OPEB Liability	\$ 641,892	\$ 732,906	\$ 846,411
Service Cost	16,536	21,423	28,132

  

	Discount Rate		
	1% Decrease (3.5%)	Trend Rate (4.5%)	1% Increase (5.5%)
Net OPEB Liability	\$ 838,007	\$ 732,906	\$ 647,271
Service Cost	27,359	21,423	16,977

*Changes in the Net OPEB Liability* – The following table summarizes the changes in the net OPEB liability for the year ended December 31, 2020:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at December 31, 2019	\$ 677,305	\$ 32,446	\$ 644,859
Changes for the year:			
Service cost	21,423	-	21,423
Interest	37,348	-	37,348
Change in assumptions	80,887	-	80,887
Net investment income	-	4,724	(4,724)
Employer contributions	-	46,887	(46,887)
Benefit payments	(39,887)	(39,887)	-
Net changes	99,771	11,724	88,047
Balances at December 31, 2020	\$ 777,076	\$ 44,170	\$ 732,906

*OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB* – For the year ended December 31, 2019, the CRA recognized OPEB expense of \$23,65. Deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2020, were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 86,804
Changes of assumptions	64,710	58,732
Differences between projected and actual earnings on investments	919	3,905
	\$ 65,629	\$ 149,441

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,		
2021	\$	(37,019)
2022		(36,844)
2023		(25,604)
2024		15,655
	<u>\$</u>	<u>(83,812)</u>

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, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 14.56%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### **C. 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.

### **D. 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, 2020, cannot be determined, management believes that any resulting liability, if any should not materially affect the financial statements at December 31, 2020.

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

#### **E. Subsequent Year Events**

City of Cambridge's Mayor's Disaster Relief Fund - The CRA voted on March 17, 2021, to provide an additional \$200,000 to the Relief Fund for 2021 without geographical restrictions to create a small business relief program that will be managed by the City. The City also provided additional funding of \$400,000 itself, for a total of \$600,000.

### **IV. Implementation of GASB Pronouncements**

#### Current Year Implementations

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement was 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 became effective for the CRA in fiscal year 2020. The adoption of this standard did not have an impact on the CRA's 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 was 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 became effective for the CRA in fiscal year 2020. The adoption of this standard did not have an impact on the CRA's financial statements.

#### Future Year Implementations

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. As amended, the provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). 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, 2020 (fiscal year 2021). 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, 2021 (fiscal year 2022). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. As amended, the provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issued related to public-private and public-public partnership arrangements. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to address accounting for subscription-based information technology arrangements to government end users based on the standards established in Statement No. 87, as amended. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The CRA is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The objective of this Statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). 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, 2020**

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

	Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
CRA's proportion of the net pension liability (asset)	0.19%	0.19%	0.19%	0.16%	0.12%	0.08%	0.05%
CRA's proportionate share of the net pension liability	\$ 328,664	\$ 455,776	\$ 606,895	\$ 290,744	\$ 284,070	\$ 222,380	\$ 78,667
CRA's covered-employee payroll *	\$ 489,219	\$ 447,805	\$ 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	67.2%	101.8%	137.9%	79.5%	107.1%	122.5%	72.0%
Plan fiduciary net position as a percentage of the total pension liability	90.65%	85.81%	79.89%	88.02%	83.08%	79.60%	87.51%

**SCHEDULE OF THE CRA'S CONTRIBUTIONS TO PENSION PLAN**

	Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	\$ 96,072	\$ 86,224	\$ 81,458	\$ 64,851	\$ 47,698	\$ 30,041	\$ 17,738
Contributions in relation to the actuarially determined contribution	96,072	86,224	81,458	64,851	47,698	30,041	17,738
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CRA's covered-employee payroll	\$ 489,219	\$ 447,805	\$ 439,975	\$ 365,915	\$ 265,156	\$ 181,461	\$ 109,314
Contributions as a percentage of covered-employee payroll	19.64%	19.25%	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 REDEVELOPMENT AUTHORITY**  
**(A Component Unit of the City of Cambridge Massachusetts)**

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB (UNAUDITED)**  
**YEAR ENDED DECEMBER 31, 2020**

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

	December 31			
	2020	2019	2018	2017
Total OPEB liability:				
Service cost	\$ 21,423	\$ 17,087	\$ 22,849	\$ 19,251
Interest	37,348	42,905	49,281	39,355
Differences between expected and actual experience	-	(144,672)	-	20,678
Changes in assumptions	80,887	(58,898)	(58,482)	-
Benefit payments	(39,887)	(39,773)	(53,909)	(66,619)
Net change in total OPEB liability	99,771	(183,351)	(40,261)	12,665
Total OPEB liability - beginning of year	677,305	860,656	900,917	888,252
Total OPEB liability - end of year (a)	<u>\$ 777,076</u>	<u>\$ 677,305</u>	<u>\$ 860,656</u>	<u>\$ 900,917</u>
Plan fiduciary net position:				
Contributions - employer	\$ 46,887	\$ 46,773	\$ 60,909	\$ 80,619
Net investment income (loss)	4,724	4,214	(1,278)	1,510
Benefit payments	(39,887)	(39,773)	(53,909)	(66,619)
Net change in Plan fiduciary net position	11,724	11,214	5,722	15,510
Plan fiduciary net position - beginning of year	\$ 32,446	\$ 21,232	15,510	-
Plan fiduciary net position - end of year (b)	<u>\$ 44,170</u>	<u>\$ 32,446</u>	<u>\$ 21,232</u>	<u>\$ 15,510</u>
Net OPEB liability - end of year (a) - (b)	<u>\$ 732,906</u>	<u>\$ 644,859</u>	<u>\$ 839,424</u>	<u>\$ 885,407</u>
Plan fiduciary net position as a percentage of the total OPEB liability	5.68%	4.79%	2.47%	1.72%
Covered-employee payroll	\$ 522,552	\$ 507,332	\$ 403,194	\$ 391,450
Net OPEB liability as a percentage of covered-employee payroll	140.26%	127.11%	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.

See accompanying independent auditors' report.

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

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB (UNAUDITED)**  
**YEAR ENDED DECEMBER 31, 2020**

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**SCHEDULE OF CONTRIBUTIONS**  
**LAST 10 FISCAL YEARS**

	December 31			
	2020	2019	2018	2017
Actuarially-determined contribution	\$ 51,317	\$ 59,144	\$ 74,854	\$ 71,434
Contributions in relation to the actuarially-determined contribution	(46,887)	(46,773)	(60,909)	(80,619)
Contribution deficiency (excess)	<u>\$ 4,430</u>	<u>\$ 12,371</u>	<u>\$ 13,945</u>	<u>\$ (9,185)</u>
Covered-employee payroll	\$ 522,552	\$ 507,332	\$ 403,194	\$ 391,450
Contribution as a percentage of covered-employee payroll	8.97%	9.22%	15.11%	20.59%
Valuation Date	January 1, 2019			
Amortization Period	30 years			
Investment rate of return	5.84%			
Municipal Bond Rate	1.93%			
Single Equivalent Discount Rate	4.50%			
Inflation	2.50%			
Healthcare cost trend rates	5.00%			
Salary increases	3.00%			
Actuarial Cost Method	Individual Entry Age Normal			
Asset Valuation Method	Market Value of Assets as of Reporting Date			

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**SCHEDULE OF INVESTMENT RETURNS**  
**LAST 10 FISCAL YEARS**

	December 31			
	2020	2019	2018	2017
Annual money-weighted rate of return, net of investment expense	14.56%	19.36%	-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, 2020

Allocated Project Costs	Expense Categories										Totals
	Salaries	Community Outreach	Marketing & Professional Development	Insurance	Office Management	Property Management	Professional Services	Redevelopment Investments	Foundry Fund	Property Investment	
Alewife	\$ 9,735	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,900	\$ -	\$ -	\$ -	\$ 44,635
Bishop Allen Drive	80,813	-	11	-	780	-	26,324	2,880	-	695,800	806,608
BA Operations	-	-	-	24,939	-	-	-	88,717	-	223,492	337,148
Forward Fund	46,189	-	-	-	442	-	17,910	-	389,029	-	453,570
Foundry	52,974	-	194	-	-	-	24,434	-	-	-	77,602
Foundry Restricted	15,868	-	-	-	-	-	35,358	-	-	-	51,226
Housing Community Improvement	(25)	-	-	-	-	-	-	-	-	-	(25)
KS Open Space	31,410	-	-	-	7	-	36,793	32,054	-	-	100,264
KSTEP	20	-	1	-	-	-	24,793	3,980	-	-	28,794
MFNH	20,259	-	223	-	-	-	117,183	-	-	-	137,665
MXD Commercial	71,171	-	-	-	175	-	25,308	-	-	-	96,654
MXD Housing	4,848	-	-	-	-	-	5,600	-	-	-	10,448
MXD Signage	6,277	-	-	-	-	-	-	-	-	-	6,277
Strategic Planning	25,987	-	202	-	3,000	-	-	-	-	-	29,189
Transport	28,998	-	27	-	1,060	-	185,347	-	-	-	215,432
Workforce Development	4,327	-	33	-	4,500	-	15,000	-	-	-	23,860
Other	7,417	-	-	-	(12)	-	-	-	-	-	7,405
<b>Totals</b>	<b>\$ 406,268</b>	<b>\$ -</b>	<b>\$ 691</b>	<b>\$ 24,939</b>	<b>\$ 9,952</b>	<b>\$ -</b>	<b>\$ 548,950</b>	<b>\$ 127,631</b>	<b>\$ 389,029</b>	<b>\$ 919,292</b>	<b>\$ 2,426,752</b>

See accompanying independent auditor's report.

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants

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

Management Letter

Year Ended December 31, 2020



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

MANAGEMENT LETTER  
YEAR ENDED DECEMBER 31, 2020

**Table of Contents**

	<u>Page(s)</u>
Transmittal Letter.....	1
Overview.....	2 - 3
Informational Items.....	4
Operational Comments .....	5 - 8



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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, 2020, 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. However, material weaknesses may exist that have not been identified.

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 27, 2021

## OVERVIEW

Coming into 2020, the CRA had built a significant pool of financial resources to maintain operations and pursue new avenues of activities and assistance. This was largely from the receipts from the sale of development rights that had provided them nearly \$50.0 million dollars of revenue in the previous 4 years. However, then the COVID-19 pandemic came much of the country temporarily shutdown or slowed down operations for the last three quarters of calendar year 2020. As a result, the CRA was in a particularly special position to offer small business recovery loans to small businesses which totaled \$1.46 million in 2020 alone.

The CRA continues to build a strong financial footing through its sale of development rights to private developers within the Kendall Square Urban Renewal Project (KSURP) area with over \$20.6 million of such revenue recognized in 2019 alone and an additional \$28.7 million received previously from 2016 – 2018. However, such revenues are not at all consistently received annually and there are times when the economy impacts that little or no such development may occur for an extended period of time. In 2020, no such new revenue was recorded by the CRA. Accordingly, the CRA is challenged to both pro-actively utilize such funds for its mandated purposes, while also insuring that sufficient liquid assets exist to maintain normal operations consistently and securely.

In the previous year, the CRA acquired a commercial property located at 99 Bishop Allen Drive for approximately \$9.0 million with the intent of leasing out to tenants in promotion of its KSURP requirements to provide services to the community, as well as, hopefully to serve as a revenue generating enterprise in future years. As part of this transaction, the CRA financed the purchase of the property with a mortgage note through an area bank in the amount of \$7.0 million and for the foreseeable future, a significant portion of the lease rental income will be utilized to paydown the annual debt service on the note. In addition to the original purchase cost, the CRA identified that it needed to spend another nearly \$0.7 million in 2020 to perform necessary improvements and upgrades to the building, and there are some additional costs anticipated to be incurred during 2021 on this upgrade project also. The CRA has contracted with a property management company to run the day-to-day operations of the commercial property on-behalf of the CRA. Even with COVID-19 impacts, the CRA increased the 2020 rental income to over \$0.35 million as this was the first, full-year the CRA owned the property.

Additionally, the financial resources allocated and restricted, for specific program use by the Board relative to the Foundry and KSTEP projects which held \$7.0 million and \$6.0 million (down \$2.0 million from the prior year as some money was distributed to the City of Cambridge in-line with the anticipated Foundry project plan), respectively, remained available as of December 31, 2020.

Even with all of the financial disbursement activity that the CRA was able to pursue during the year ended December 31, 2020, the CRA's net position decreased only about \$0.2 million because the CRA was able to recognize approximately \$1.97 million from its investment income derived from its monetary holdings. While this source of revenue proved to be exceptionally beneficial to the CRA in 2020, we would cautiously warn that investment income can be very unpredictable and can also result in unpredictable investment losses.



For example, investment income was a whole \$1.0 million lower than the previous year, 2019, so investment income effectively dropped one-third in 2020. Accordingly, while we encourage the wise investment of funds within the mandated State investment law guidelines for municipal funds, the expectation of such significant returns in future years, should not be part of the CRA annual budget foundation.

In conclusion, we would continue to 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. To assist in addressing this fact concerning CRA operations, a Director of Finance was hired part way through the previous year to oversee financial operations, a property management company was contracted to run the daily operations of the Bishop Allen Drive property, and the CRA arranged for a local bank to assist with the issuance and tracking of the COVID recovery loans for small businesses. There are 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.

## **INFORMATIONAL ITEMS**

### **Network Security (General Informational Comment by Auditor)**

In the prior year, we alerted the CRA to review their internal network in order to address vulnerabilities, if any, to their current operating system and determine if the CRA is adequately protected from intrusions.

This process is more important now than ever before. Given that the COVID-19 pandemic has created a work at home processing environment, it is imperative that the CRA review all remote processes and make sure these are secure, especially if computers other than CRA computers are being used.

### **New GASB Pronouncements (General Informational Comment by Auditor)**

The GASB has approved a new pronouncement that will go into effect starting January 1, 2022.

GASB 87 requires the CRA to revise the manner of accounting for its operating leases. Previously, governmental entities reported their leases similarly to how private entities reported leases under ASC 840.

While finance leases would be capitalized on the balance sheet, operating leases would be reported in the footnotes. However, GASB 87 requires that all operating leases now be accounted for as finance leases.

As a result, leases previously classified as operating leases will not only be capitalized on the statement of net position, but also be reported differently in the statement of revenues, expenses, and changes in net position.

## **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 (with significant additional proceeds having continued in subsequent year plus now the CRA having added a function as a landlord), 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. Furthermore, with the CRA now engaging in rental property ownership, a fund-based accounting system can more easily provide financial information specific to that enterprise since the rental operations could be setup as its own fund, allowing for a more distinct segregation of such operations from the CRA's other, much different operations.

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.

## **Governmental Accounting Software – continued**

### **CRA Management Response:**

CRA Staff recognizes the need for a more robust accounting software to manage project-based accounting. The Staff are reviewing and testing several different software that is right sized for the organization today and in the immediate future. A formal recommendation will be forthcoming.

## **Retiree Personnel File Documentation**

As part of our other postemployment benefits census testing, we were told that the CRA maintains no retiree files in their office. They indicated that the actuary obtained the census data for retirees for the other postemployment benefits calculation from the Group Insurance Commission (GIC). The contributory retirement system would have the benefits paperwork for pension. However, as these retirees or their surviving beneficiaries are attached to the CRA, it would seem proper to maintain certain records and information on past CRA employees. Even though these individuals are covered by insurance managed by the GIC, the CRA is the entity responsible for paying for the premiums and receiving invoices relative to the retirees they are providing insurance for. We suggest that the CRA evaluate this records retention policy and consider implementing enhanced file maintenance for retirees.

### **CRA Management Response:**

In addition to receiving the quarterly amounts owed to the GIC for retirees and survivors, the GIC now sends the CRA a more detailed quarterly printout of the health insurance information for retirees. The survivor list no longer has any subscribers. The retiree report shows each name, including spouses (if applicable), the last 4 digits of the subscribers' social security number, health plan name, and the amounts for each plan. The list of people has been verified that they were all CRA employees who worked for the CRA for the necessary years in order to get this lifetime benefit. Additionally, the CRA will consult with the Cambridge Retirement System to cross reference data regarding retirees that are participants of both benefit systems.

Once the pandemic situation is resolved and employees are able to return to their offices, staff will follow up with the GIC to gain access to the data records for these individuals and will develop a validation procedure.

## **Employee Payroll Records Maintenance**

As part of our 2020 audit testing for payroll, a sampling of employees was made with certain employment related documents requested for verification and compliance purposes. The result of that testing identified lapses in adequate employee file maintenance and tracking, specifically noted were:

- 1) The U.S. Department of Homeland Security has issued guidance that I-9 forms are to be maintained on file for any employee hired after November 7, 1986 until at least 1 year after they leave employment. Furthermore, I-9 forms can be maintained on-file together with other I-9 forms, but those forms are never supposed to be co-mingled with other type of employee documents. We noted that the I-9 forms were not separately filed from other employee records.
- 2) The Commonwealth of Massachusetts requires municipal employees and board members to complete the Conflict of Interest Law Online Training Program every two years and submit the completion certificates to a central employer repository that should maintain compliance. It appears that the CRA does require all new employees and board members to complete the training program, but there does not appear to be a mechanism in place to ensure the two year “re-certification” process gets completed.

### **CRA Management Response:**

- 1) The I-9 forms for each employee were removed from their individual employee’s folder, grouped together, and now exist in a separate I-9 folder.
- 2) We will institute the 2-year recertification process immediately.

## **Cash Reconciliation Documentation**

In our review of the cash reconciliation documentation for December 31, 2020, we discovered that the bank statements appear to have been timely reconciled against the general ledger cash balances as they existed at that time. However, subsequent to the reconciliation process, the general ledger year-end closing procedures resulted in some cash adjustments to the general ledger account balances. This is not necessarily an out of the ordinary situation; however, the process appears to be less than adequate in that once the general ledger was closed and finalized for 2020, the December 31, 2020, cash reconciliation documents should have been re-generated to account for the changes. As they were not, this resulted in additional audit time to identify with CRA personnel what exact impacts the later cash adjustments on the general ledger had on the cash reconciliations back to the bank balances.

### **CRA Management Response:**

As the CRA financial reporting process has evolved to reporting allowing for month end / year end closing; the timing of these year entries resulted in this oversight and inconsistency in the bank reconciliations.

## **CRA Loan Approval Documentation**

We reviewed a sampling of the new COVID business loans issued by the CRA during 2020. We noted that the actual loan agreement document did not appear to actually have a place for a signature by a CRA official agreeing to the loan terms. The recipient of the loan signed the document but not the CRA. While we would agree that a loan application would just require a potential recipient signature, when it comes to the actual document agreeing to the terms by both parties, we consistently see signatures by both parties (the loanee and lender) on the documents in other municipal redevelopment authority entities. We would encourage the CRA to address this with their legal counsel to identify what impact if any, the lack of an approving signature and date by the CRA could have if there were potential collectability issues in the future that resulted in court or if either party pursued any course of action in court relative to the loan.

### **CRA Management Response:**

The 5-year, Zero Interest COVID-19 Loan Program was a rapid response to meet a critical need of the small business community of the City of Cambridge. The “Promissory Note” underwent legal review, and the opinion of Foley Hoag was that only the borrower needed to sign the document. These “Promissory Notes” were issued without the standards of traditional loans – credit scores, collateral, etc. With that said, CRA Staff recognize the validity and importance of the documentation and will consider it should future loan programs be implemented.