

New Issue

In the opinion of Locke Lord LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Exemption" herein.

CITY OF CAMBRIDGE, MASSACHUSETTS
\$2,000,000
GENERAL OBLIGATION BONDS, 2017 SERIES A
(Minibond Program)

DATED
Date of Delivery

DUE
February 15, 2022

The Bonds are issuable only in fully registered form, registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$1,000 or any integral multiple thereof. See "THE BONDS - Book-Entry Transfer System" herein.

Principal of the Bonds will be paid on the maturity date set forth above. Interest on the Bonds will be payable semiannually on February 15 and August 15, commencing August 15, 2017, until maturity. Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Bonds are not subject to redemption prior to their stated maturity date. See "THE BONDS – Description of the Bonds" herein.

An opinion of Bond Counsel will be delivered with the Bonds to the effect that the Bonds are valid general obligations of the City of Cambridge and, to the extent not paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the City subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

MATURITY, AMOUNT, RATE, PRICE AND CUSIP

<u>February 15</u>	<u>Amount</u>	<u>Rate</u>	<u>Price</u>	<u>132285</u>
2022	\$2,000,000	1.60%	100%	3R6

The Bonds are offered when, as and if issued and received by the Underwriter subject to the final approving opinion of Locke Lord LLP, Boston, Massachusetts, Bond Counsel, as aforesaid, and to certain other conditions referred to herein. FirstSouthwest, a Division of Hilltop Securities Inc., Boston, Massachusetts has acted as Financial Advisor to the City with respect to the Bonds. See "Financial Advisory Services of FirstSouthwest, a Division of Hilltop Securities Inc." herein. The Bonds in definitive form will be delivered to DTC, or its custodial agent, on or about March 8, 2017 for settlement in federal funds.



February 23, 2017

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
SUMMARY STATEMENT	3
OFFICIAL STATEMENT:	
THE BONDS:	
Minibond Program	4
Description of the Bonds	4
Security and Remedies	5
Record Date	6
Book-Entry Transfer System	6
Authorization of the Bonds and Use of Proceeds	8
Risk Factors	8
Tax Exemption	8
Ratings	9
Underwriting	9
Opinion of Bond Counsel	10
Financial Advisory Services of FirstSouthwest, a Division of Hilltop Securities Inc.	10
Continuing Disclosure	10
THE CITY OF CAMBRIDGE, MASSACHUSETTS:	
General	11
Principal Elected Officials	11
Principal Executive Officers	12
Municipal Services and Facilities	13
Organizational Chart	14
The Cambridge Economy	15
Economic Summary	15
Economic Stability	15
Principal Employers	16
Unemployment	17
Personal Income	17
Local Economic Trends	18
Housing	20
Transportation and Transit	21
Commercial Real Estate Market	21
Affordable Housing Initiatives/Community Preservation Act	24
Economic Development Districts	25
Industry and Commerce	32
Labor Force, Employment and Unemployment Rate	32
Housing and Construction Activity	33
Parcel County by Type	33
Value of New Construction and Distribution by Type	33
Income Levels and Population Characteristics	34
Population and Rates of Change	35
Education	35
Public School Enrollment Projections	35
Public School Enrollment History	35
Higher Education	36
The Cambridge Public Health Commission	36
PROPERTY TAXATION:	
Tax Levy Computation	38
Assessed Valuations and Tax Levies	39
Classification by Property	39
Largest Taxpayers	40
State Equalized Valuation	40
Abatements and Overlay	41
Tax Collections	41
Tax Titles and Possessions	42
Taxation to Meet Deficits	42
Tax Limitations	42
Tax Levies and Levy Limits	44
Community Preservation Act	44
CITY FINANCES:	
Budget and Appropriation Process	46
Budget Comparison	47
Revenues	48
Property Taxes	48
Federal Aid	48
State Aid	48
Motor Vehicle Excise	49
Water and Sewer	49
Room Occupancy Tax	49
Local Meals Excise Tax	49
Investment of City Funds	50
Annual Audits	50
Basis of Accounting	50
Financial Statements	50
Balance Sheet (Governmental Funds) for the fiscal years ending	
June 30, 2016	51
June 30, 2015	52
June 30, 2014	53
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds for the fiscal years ending	
June 30, 2016	54
June 30, 2015	55
June 30, 2014	56
June 30, 2013	57
June 30, 2012	58
Free Cash (Uniform System of Accounting)	59
Tax Increment Financing for Development Districts	59
INDEBTEDNESS:	
Authorization Procedure and Limitations	60
Types of Obligations	60
Direct Debt Summary	62
Five Year Debt Summary	62
Debt Ratios	63
Ratio of Gross Direct Debt to Assessed Value and Gross Direct Debt per Capita	63
Debt Service Requirements	64
Authorized Unissued Debt and Prospective Financing	64
Overlapping Debt	65
Contractual Obligations	65
RETIREMENT PLAN	66
Other-Post Employment Benefits	68
EMPLOYEE RELATIONS	69
LITIGATION	69
APPENDIX A - AUDITED FINANCIAL STATEMENTS AS OF JUNE 30, 2016	
APPENDIX B - PROPOSED FORM OF LEGAL OPINION	
APPENDIX C - PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE	

The Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds described herein shall, under any circumstances, create any implication that there has been no change in the affairs of the City of Cambridge, since the date hereof.

SUMMARY STATEMENT

The information set forth below is qualified in its entirety by the information and financial statements appearing elsewhere in this Official Statement.

Issuer:	City of Cambridge, Massachusetts.
Issue:	\$2,000,000 General Obligation Bonds, 2017 Series A (Minibond Program), see "THE BONDS - Book-Entry Transfer System" herein.
Minibond Program:	Initially, the Bonds are intended to be offered solely to Cambridge residents – see "THE BONDS - Minibond Program" herein. Subsequent transfers will not be restricted to Cambridge residents.
Official Statement Dated:	February 23, 2017.
Dated Date of the Bonds:	Date of delivery.
Principal Due:	February 15, 2022.
Interest Payable:	Semiannually on February 15 and August 15, commencing August 15, 2017, to the maturity date of the Bonds.
Redemption:	The Bonds are not subject to redemption prior to their stated maturity date.
Purpose and Authority:	The Bonds are authorized for various municipal purposes under Chapter 44, of the Massachusetts General Laws as detailed herein.
Security of the Bonds:	The Bonds are valid general obligations of the City of Cambridge, and, to the extent not paid from other sources, the Bonds are payable from taxes which may be levied upon all taxable property within the territorial limits of the City, subject to the limit imposed by Chapter 59, Section 21C of the General Laws.
Credit Ratings:	Fitch Ratings, Moody's Investors Service, Inc. and S&P Global Ratings have assigned ratings of AAA, Aaa and AAA, respectively, to the Bonds. See "Ratings" herein.
Tax Exemption:	Refer to "THE BONDS - Tax Exemption" herein and Appendix B "Proposed Form of Legal Opinion".
Continuing Disclosure:	Refer to "THE BONDS - Continuing Disclosure" herein and Appendix C "Proposed Form of Continuing Disclosure Certificate".
Paying Agent:	U.S. Bank National Association, Boston, Massachusetts.
Bond Counsel:	Locke Lord LLP, Boston, Massachusetts.
Financial Advisor:	FirstSouthwest, a Division of Hilltop Securities Inc., Boston, Massachusetts.
Delivery and Payment:	It is expected that delivery of the Bonds in book-entry only form will be made to The Depository Trust Company, or to its custodial agent, on or about March 8, 2017 against payment in federal funds.
Issuer Official:	Questions concerning the Official Statement should be addressed to: Ms. Jeana Franconi, Budget Director, City of Cambridge, Massachusetts, Telephone (617) 349-4268 or Cinder McNerney, Managing Director, FirstSouthwest, a Division of Hilltop Securities Inc., Boston, Massachusetts, Telephone (617) 619-4408.

OFFICIAL STATEMENT
CITY OF CAMBRIDGE, MASSACHUSETTS
\$2,000,000
GENERAL OBLIGATION BONDS, 2017 SERIES A
(Minibond Program)

This Official Statement is provided for the purpose of presenting certain information relating to the City of Cambridge, Massachusetts (the "City"), in connection with the sale of \$2,000,000 aggregate principal amount of its General Obligation Bonds, 2017 Series A (Minibond Program) (the "Bonds"). The information contained herein has been furnished by the City, except for any information attributed to another governmental agency or official as the source.

THE BONDS

Minibond Program

The City has implemented a minibond program (the "Minibond Program") in order to allow local residents in Cambridge, Massachusetts to invest in Cambridge. In addition, the Minibond Program is designed to make investing in the City's Bonds more accessible to potential investors within the community. The City will issue the Bonds in minimum denominations of \$1,000, unlike bonds previously issued by the City, which had minimum denominations of \$5,000. The City intended that the Bonds be sold initially to only Cambridge residents, although the initial beneficial owners and subsequent beneficial owners may sell or transfer the Bonds thereafter to any purchaser. Each initial purchaser was allowed to purchase up to \$20,000 of Bonds.

Neighborly Securities LLC (the "Underwriter") is not affiliated with the City in any way, other than serving as the Underwriter for the Bonds.

Description of the Bonds

The Bonds will be dated as of their delivery date and will bear interest payable semiannually on February 15 and August 15, commencing August 15, 2017. The Bonds will mature on February 15, 2022.

The Bonds are issuable only in fully registered form, without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$1,000 or any integral multiple thereof. Initial purchases are intended for Cambridge residents as described above under "Minibond Program." Purchasers will not receive certificates representing their interests in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Transfer System" herein.)

Principal of and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursements of such payments to the DTC participants are the responsibility of DTC and disbursements of such payments to the beneficial owners are the responsibility of the DTC participants and the indirect participants, as more fully described herein.

The Bonds are not subject to redemption prior to their stated maturity date.

Security and Remedies

Full Faith and Credit. The Bonds are general obligations of the City, to the payment of which the full faith and credit of the City are irrevocably pledged. Payment is not limited to a particular fund or revenue source. Except for "qualified bonds" as described below (see "Types of Obligations - *Serial Bonds and Notes*" under "INDEBTEDNESS" below) and setoffs of state distributions as described below (see "Use of State Distributions to Pay Debt Service" below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted. The Bonds are not guaranteed by The Commonwealth of Massachusetts (the "Commonwealth" or the "State") or by any other entity.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year "all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments." Specific provision is also made for including in the next tax levy payment of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See "Tax Limitations" under "PROPERTY TAXATION" below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit. *The City of Cambridge has not voted to exempt the debt service on the Bonds from the limitations.*

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit. (See "Debt Limits" under "INDEBTEDNESS" below.) Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. Massachusetts cities and towns are subject to suit on their bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the Bonds or notes from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law. (See "Tax Limitations" under "PROPERTY TAXATION" below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, and community preservation and affordable housing purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable to pay bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on "qualified bonds" (See "*Serial Bonds and Notes*" under "INDEBTEDNESS – Types of Obligations" below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority ("MBTA") or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority ("MWRA") if the city or town is within the territory served by the Authority, for any debt service due on obligations issued to the Massachusetts School Building Authority ("MSBA"), or for charges necessary to meet obligations under the Commonwealth's Clean Water or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater collection or treatment services or drinking water services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the Bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by the Commonwealth to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions, and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act has sometimes been delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal or interest on bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the Massachusetts legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not generally authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal bankruptcy laws. In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth's oversight of the financially distressed city, town or regional school district. To date, no such filings have been approved or made.

Record Date

The record date for each payment of interest is the last business day of the month preceding the interest payment date provided that, with respect to overdue interest, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the Bondowners at least ten (10) days before the special record date.

Book-Entry Transfer System

DTC will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered certificate will be issued for the Bonds, in the aggregate principal amount of the Bonds, and such certificate will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among

Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated securities. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of securities deposited with DTC must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security deposited by DTC ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the securities deposited by DTC are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the securities deposited with DTC, except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities deposited with DTC; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with DTC unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer of such securities or its paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the issuer of such securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of such securities or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the securities deposited with DTC at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Authorization of the Bonds and Use of Proceeds

In addition to the issuance of the Bonds on March 8, 2017, the City also expects to issue another series of general obligation bonds (the "Series B Bonds") on March 8, 2017. The proceeds of the Bonds and the Series B Bonds will be used for the purposes set forth below. The Series B Bonds will be offered by a separate Official Statement and are not offered hereby. The issuance and delivery of the Bonds is contingent on the issuance and delivery of the Series B Bonds. The Bonds will not be issued if the Series B Bonds are not issued. The City will determine which purposes will be funded with the proceeds of the Bonds and there is no assurance that proceeds of the Bonds will be applied to all of the purposes listed below.

The following sets forth the purposes, principal amounts to be issued, amounts authorized pursuant to M.G.L. Chapter 44, section 7(1), and dates of City approval, for the current offering of Bonds and Series B Bonds.

Bonds And Series B Bonds	Purpose	Original Bond Authorization	Dates of Authorization
\$ 470,000	Cambridge Common	\$ 2,180,000	5/20/2013
655,000	Harvard Square Sewer/Stormwater	1,500,000	5/20/2013
2,250,000	Agassiz Sewer/Stormwater	2,910,000	6/4/2014
8,655,000	Area IV Sewer/Stormwater	25,000,000	6/1/2015
745,000	Harvard Square Sewer/Stormwater	800,000	6/1/2015
940,000	Capital Repairs Sewer/Stormwater	1,000,000	6/1/2015
2,340,000	Building Renovations/Energy Improvements	5,000,000	6/1/2015
3,270,000	Harvard Square Surface Infrastructure	4,000,000	6/1/2015
2,050,000	Kennedy Longfellow School Roof Replacement	4,200,000	6/1/2015
150,000	Police Department Elevator	150,000	5/23/2016
19,875,000	King Open and Cambridge Street Upper School & Comm.	146,600,000	5/23/2016
2,335,000	Fletcher/Maynard Longfellow Academy Roof Repair	2,500,000	5/23/2016
470,000	Amigos School Boiler	500,000	5/23/2016
4,530,000	Cambridgeport Sewer Separation	4,850,000	5/23/2016
3,270,000	Capital Repairs	3,500,000	5/23/2016
1,870,000	Complete Streets	2,000,000	5/23/2016
4,670,000	Comprehensive Facilities Improvement Plan	5,000,000	5/23/2016
<u>\$ 58,545,000</u>			

Risk Factors

The financial and economic condition of the City as well as the market for the Bonds could be affected by a variety of factors, some of which are beyond the City's control. There can be no assurance that adverse events in the Commonwealth or in other jurisdictions in the country will not occur that might affect the market price of or the market for the Bonds. A significant default or other financial crisis in the affairs of the Commonwealth or another jurisdiction or any of its agencies or political subdivisions could adversely affect the market for and market value of outstanding debt obligations, including the Bonds.

The market value of the Bonds will also be affected by changes in the level of interest rates and generally rising interest rates may cause the market value of the Bonds to decrease either during the extended order period or in the secondary market. There can be no assurance that any sale of Bonds prior to maturity will be at a price at least equal to the price paid by a purchaser at the time of initial issuance.

Tax Exemption

In the opinion of Locke Lord LLP, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The City has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted by law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a Bondholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

Ratings

Fitch Ratings, Moody's Investors Service, Inc. and S&P Global Ratings have assigned ratings of AAA, Aaa and AAA, respectively, to the Bonds. Said ratings reflect only the respective rating agency's views and are subject to revision or withdrawal, which could affect the market price of the Bonds.

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at a purchase price equal to the par amount of the Bonds (\$2,000,000) and to reoffer the Bonds at no greater than the initial public offering price set forth on the cover page hereof. The Underwriter will not receive a fee to underwrite the Bonds.

Opinion of Bond Counsel

The Underwriter will be furnished the legal opinion of the firm of Locke Lord LLP, Boston, Massachusetts. The opinion will be dated and given on and will speak only as of the date of original delivery of the Bonds to the Underwriter. The opinion will be substantially in the form presented in Appendix B.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel is not passing upon and does not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and make no representation that they have independently verified the same.

Financial Advisory Services of FirstSouthwest, a Division of Hilltop Securities Inc.

FirstSouthwest, a Division of Hilltop Securities Inc., Boston, Massachusetts, serves as financial advisor to the City in connection with the issuance of the Bonds.

Continuing Disclosure

In order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the City will covenant for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain significant events. Other than the City, there are no other obligated persons with respect to the Bonds within the meaning of the Rule. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C. The Certificate will be executed by the signers of the Bonds, and is incorporated by reference in the Bonds.

CITY OF CAMBRIDGE, MASSACHUSETTS

General

The City of Cambridge (the "City") is located in southeast Middlesex County across the Charles River from the City of Boston. The City is bordered by the towns of Watertown and Belmont on the west and the Town of Arlington and the City of Somerville on the north, and occupies a land area of 6.26 square miles. The City's population was 105,162 in 2010, based upon the 2010 Federal Census.

Cambridge, first settled in 1630 by a group from the Massachusetts Bay Company, was originally incorporated as a town in 1636 and became a city in 1846. Since 1942, the City has operated under a Council-Manager form of government. The legislature and policy making body of the City is the nine-member City Council whose members are elected at-large for two-year terms. The Council elects a Mayor and Vice-Mayor from among its members with the Mayor serving as Chairperson of the School Committee.

The City Manager is the chief executive and administrative officer and carries out the policies of the City Council. With the assistance of the Deputy City Manager and three Assistant City Managers, he coordinates the functions of 34 municipal departments responsible for the delivery of service to residents. The City Manager is appointed by the City Council and serves at the pleasure of the Council.

There is a School Committee which is comprised of six elected members, who are elected for two-year terms, plus the Mayor. The School Superintendent is responsible for the day-to-day activities of the School Department and serves at the pleasure of the School Committee.

The City Council also appoints members to certain boards and commissions as it deems necessary to the operation of the City.

PRINCIPAL ELECTED OFFICIALS

The following are the nine members of the City Council elected for two-year terms ending December 31, 2017:

<u>City Title</u>	<u>Name</u>
Mayor	E. Denise Simmons
Vice Mayor	Marc C. McGovern
	Dennis J. Carlone
	Leland Cheung
	Jan Devereux
	Craig A. Kelly
	David P. Maher
	Nadeem A. Mazen
	Timothy J. Toomey, Jr

The following are the six members of the School Committee elected for two-year terms ending December 31, 2017 (the Mayor serves as Chairperson of the School Committee):

<u>City Title</u>	<u>Name</u>
Chairperson	E. Denise Simmons
	Mannika L. Bowman
	Emily R. Dexter
	Alfred B. Fantini
	Richard Harding
	Kathleen Kelly
	Patricia M. Nolan

PRINCIPAL EXECUTIVE OFFICERS

Louis A. De Pasquale, City Manager since November 2016.

Mr. DePasquale previously served as Assistant City Manager for Fiscal Affairs and Treasurer Collector from 2002 to 2016, as City Budget Director from 1982 to 2002, as Chief Budget Analyst from 1980 to 1982, as Budget Analyst from 1977 to 1980, and as Treasury Analyst from 1975 to 1977. He holds a Bachelor of Science degree in Criminal Justice from Boston State College and a Master's degree in Public Administration from Northeastern University.

Lisa C. Peterson, Deputy City Manager since July 2013.

Ms. Peterson previously served as the Commissioner of Public Works from 2001 to 2013 and as Assistant to the City Manager from 1990 to 2001. She holds a Bachelor of Arts degree in English and Political Science from Michigan State University and a Masters degree in Public Health from Boston University.

Iram Farooq, Assistant City Manager for Community Development since September 2015.

Ms. Farooq previously served as Acting Assistant City Manager for Community Development. Ms. Farooq was an Aga Khan scholar at the Harvard Graduate School of Design. She holds a Bachelor in Architecture degree from the School of Architecture and Planning in New Delhi and a Masters in Landscape Architecture from Harvard University with specialization in Land Planning. She has served on the boards of the Massachusetts chapters of American Planning Association and the US Green Building Council (USGBC), USGBC's Education Steering Committee, and the Greenbuild Program Committee.

Jeanne Franconi, Budget Director since December 2012.

Ms. Franconi previously served as the Division Head of Administration for the Department of Human Service Programs from 2005-2012. She is a Certified Public Accountant (CPA) and Chartered Global Management Accountant (CGMA) and holds a Bachelor of Science degree in Business Administration from Oakland University.

Michele Kincaid, Assistant Finance Director since July 2012 and Acting Treasurer/Collector.

Ms. Kincaid previously served in the Auditing Department from 1998-2008. Ms. Kincaid holds a Bachelor of Science degree in Accounting from Bentley College.

Ellen M. Semonoff, Assistant City Manager for Human Services since August 2004.

Ms. Semonoff previously served as Acting Assistant City Manager for Human Services from December, 2003 to August, 2004, as Deputy Director of the Department of Human Service Programs from 1995-2003 and as Assistant to the City Manager from 1991-1995. She holds a Bachelor of Arts degree from Brandeis University and a Doctor of Jurisprudence degree from Harvard Law School.

Nancy E. Glowa, City Solicitor since December 2012.

Ms. Glowa previously as Acting City Solicitor from January 2012 to December 2012, as Deputy City Solicitor from 2002 to 2012, as First Assistant City Solicitor from 1997 to 2002, and as Legal Counsel from 1994 to 1997; she also served as Acting Director of the Conservation Commission from 2001 to 2002. She holds a Bachelor of Arts degree in English from Smith College and Doctor of Jurisprudence degree from Boston University School of Law.

Donna P. Lopez, City Clerk since June 2013.

Ms. Lopez previously served as Interim City Clerk from March 2012 to June 2013, and as Deputy City Clerk from June 1996 to February 2012. She graduated from Emmanuel College in 2000. In her forty-three years of employment in the City Clerk's Office she has held the following positions: Office Manager, Head Clerk, Principal Clerk, Senior Clerk Stenographer, Senior Clerk and Junior Clerk Typist.

James H. Monagle, City Auditor since January 2001.

Mr. Monagle previously served as Assistant Finance Director for Cambridge, Massachusetts from 1997 to 2001. He is a career financial professional involved in virtually all aspects of financial management of both corporate and government entities. For over nine years focused in hotel financial, general and system management. He served in both corporate headquarters and hotels throughout New England. He holds a Bachelor of Arts in Political Science from Boston State College and Masters degree in Business Administration from Suffolk University.

Dr. Kenneth N. Salim, Superintendent of the Cambridge Public Schools since July 2016.

Dr. Kenneth Salim was appointed Superintendent of Cambridge Public Schools in the fall of 2015 and began his tenure July 1, 2016. Prior to coming to CPS, Dr. Salim was the Superintendent of Weymouth Public Schools, a 7,000 student school district south of Boston. During his tenure, Dr. Salim focused reform efforts on aligning resources and initiatives to improve the instructional core, furthering engagement with families and the community, and developing leadership at all levels. Previously, Dr. Salim was a senior district administrator in Boston Public Schools where he directed the district's professional development office, oversaw college readiness initiatives, and led the district's nationally recognized teacher induction and mentoring program. Dr. Salim began his teaching career as a biology teacher in the Boston Public Schools at Brighton High School, where he developed the Advanced Placement Biology program. The first in his family to graduate from college, Dr. Salim earned his Bachelor's degree in Biology at Brown University and his doctorate in the Urban Superintendents Program at the Harvard Graduate School of Education.

Municipal Services and Facilities

The City provides general governmental services for the territory within its boundaries, including police and fire protection, collection and disposal of garbage and rubbish, public education in grades kindergarten through twelve, water and sewer services, parks and recreation, health and social services, libraries/culture, and maintenance of streets and highways. The Massachusetts Bay Transportation Authority ("MBTA") provides rapid transit service and bus coverage throughout the City with connections to the Metropolitan Boston area. The Massachusetts Water Resources Authority ("MWRA") provides sewerage disposal services to the City. The Cambridge Housing Authority provides public housing for eligible low-income families, the elderly, and the handicapped.

Prior to July 1, 1997, Middlesex county provided space for courts, a jail, a house of correction, and a registry of deeds. Legislation was enacted in 1997 abolishing the county governments of Franklin and Middlesex counties as of July 1, 1997, with their assets, functions, debts and other obligations being assumed by the Commonwealth. The abolishment of the Middlesex County government was in part in response to a default by the county in the payment of general obligation notes of the county. The legislation also abolished the county governments of Hampden and Worcester counties as of July 1, 1998. Legislation enacted in 1998 abolished the county governments of Hampshire, Essex and Berkshire counties as of January 1, 1999, July 1, 1999, and July 1, 2000, respectively. The legislation also requires the state secretary for administration and finance to establish a plan to recover the Commonwealth's expenditures for the liabilities and other debts assumed and paid by the Commonwealth on behalf of an abolished county. Unless these provisions are changed by further legislation, the state treasurer shall assess upon each city and town within the jurisdiction of an abolished county an amount not exceeding or equal to the county tax paid by each such city and town for the fiscal year immediately prior to the abolishment of the county (or two years prior in the case of Essex County) until such expenditures by the Commonwealth are recovered. It is possible that similar legislation will be sought to provide for the abolishment of county government in all the remaining counties.

The City's main municipal buildings include a City Hall, three general administrative buildings, a school administrative building, a public works garage and headquarters building, and a water treatment facility located at the City's reservoir. There is one public safety facility (police headquarters and emergency communication center), nine fire stations, six area libraries, plus a main branch, approximately eighty parks and playground areas, a high school, twelve elementary schools, and four upper schools located throughout the City.

Other major recreational facilities provided by the City include a municipal golf course and club house, two community centers, outdoor and indoor swimming pools, tennis facilities, and a field house located at the high school.

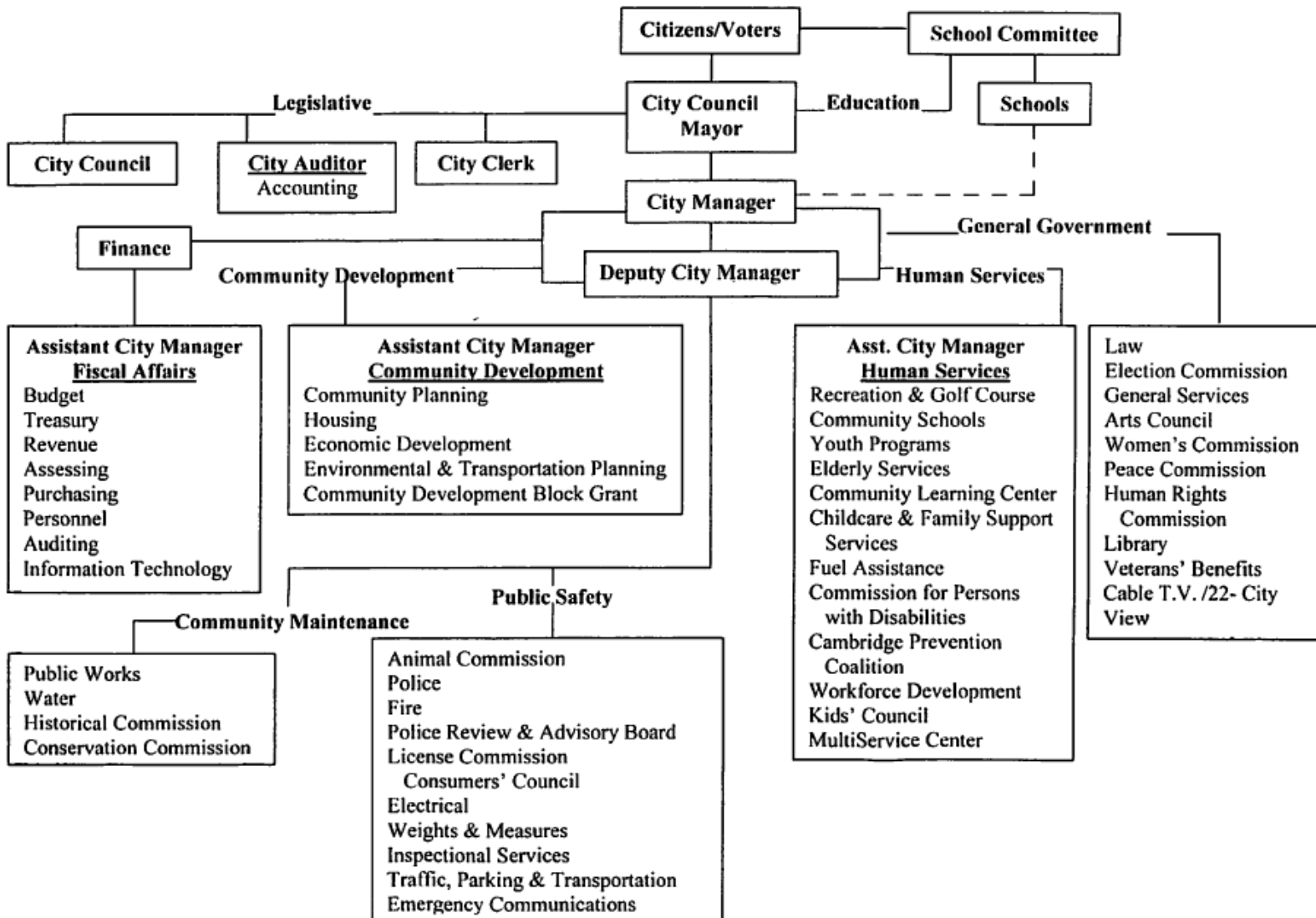
Federal buildings which are located in the City include offices for the Department of Transportation. Also, in connection with Harvard University, the Smithsonian Astrophysical Observatory is located in the City.

The major State buildings located within the City are the Middlesex County Courthouse and the Registry of Deeds.

An organization chart for the City is presented on the following page.

ORGANIZATIONAL CHART

City of Cambridge, Massachusetts



THE CAMBRIDGE ECONOMY

Economic Summary

- According to the Massachusetts Department of Labor, 2015 employment totaled 116,089 jobs, with private sector employment comprising 93.6% of total jobs.
- By Q2 2016, employment averaged 119,397.
- The American Community Survey (ACS), which conducts a comprehensive survey of employee types, estimates that on average 126,544 people were employed in Cambridge during 2011 - 2015.
- Cambridge maintains a high job to resident ratio, with 1.10 jobs for each resident.
- Professional and Business Services leads the way among employment sectors, followed by Education and Health Services.
- Led by Harvard University and MIT, the higher education sector continues to drive the job market, employing more than 21,000 people.
- Biotechnology and pharmaceutical employment exceeds 21,000 workers.
- Cambridge's December 2016 unadjusted unemployment rate of 1.7% remains lower than the Boston Primary Metropolitan Statistical Area (PMSA), Massachusetts, and US averages.
- The City's per capita personal income of \$69,010 (2015) was higher than the Boston region, Massachusetts, and the US for that same period.
- FY16 building permits totaled \$1.60 billion, yielding \$26.1 million in revenue.
- From 2012 through Q3 2016, the inventory of commercial real estate grew, adding 3.1 million square feet (s.f.). Another 950,000 s.f. is currently under construction and 4.4 million additional s.f. are fully permitted. Economic Development Districts (see "Economic Development Districts" herein) continue to provide opportunities for current and future economic growth.

Employment Stability

- Cambridge continues to have a high ratio of jobs to residents, enjoying its position as a center of employment in the Boston area.
- In 2015, the City's employment ratio continued at a high rate of 110 jobs per 100 residents.
- The employment base extends across a diverse range of businesses including higher education, research and development, consulting, and health services.
- Compared to 2014, the average number of jobs increased by 4.0%

The table below compares the employment distribution between 2014 and 2015.

	2014		2015	
Other Goods Producing	62	0.1%	52	0.0%
Trade, Transportation & Utilities	9,287	8.3	9,435	8.1
Construction	959	0.9	1,070	0.9
Manufacturing	2,812	2.5	2,997	2.6
Information	3,781	3.4	4,401	3.8
Financial Activities	3,275	2.9	3,203	2.8
Education and Health Services	35,189	31.5	36,179	31.2
Leisure and Hospitality	10,456	9.4	11,015	9.5
Other Services	2,373	2.1	2,402	2.1
Government	7,715	6.9	7,477	6.4
Professional and Business Services	35,672	32.0	35,672	32.0
TOTAL	111,581	100%	116,089	100%

Source: Mass. Executive Office of Labor and Workforce Development, 2016

Principal Employers

- Higher education and biotechnology continue to be important sectors for the City.
- Harvard and MIT employ approximately 18.3% of the workforce. In addition to providing stability in the workforce, these institutions continue to provide additional benefits for private employers located in Cambridge.
- Six of the top 25 employers fall into the biotechnology and pharmaceutical sector. Important firms include: Biogen, Novartis, Pfizer, Sanofi/Genzyme, Shire/Baxalta, and Takeda/Millennium Pharmaceuticals.
- High tech sector employment within the top 25 employers includes Akamai Technologies, Google, Hubspot, IBM, InterSystems, and Pegasystems. Since 2015, this sector increased by over 1,000 Full Time Employees (FTEs).

Principal Public and Private Employers December 2016

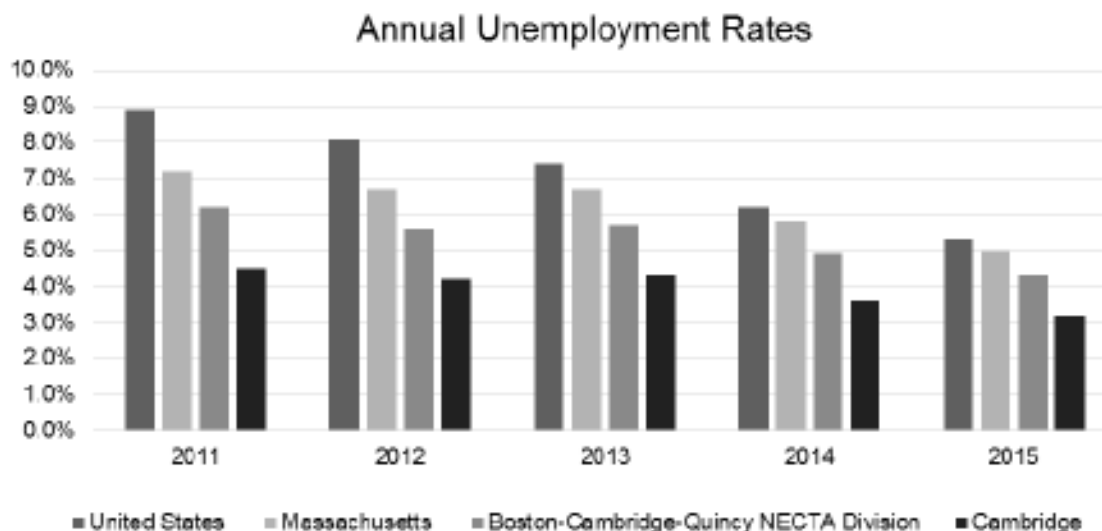
<u>2016 Rank</u>	<u>NAME OF EMPLOYER</u>	<u>2016 Employees(1)</u>	<u>BUSINESS</u>	<u>2015 Employees</u>	<u>2015 Rank</u>
1	Harvard University	12,304	Higher Education	11,997	1
2	Massachusetts Institute Of Technology	8,996	Higher Education	8,763	2
3	City Of Cambridge (2)	2,982	Government	2,950	3
4	Biogen Idec.	2,700	Biotechnology	2,700	4
5	Novartis Inst. For Biomedical Research	2,365	Biotechnology	2,457	5
6	Mt. Auburn Hospital	2,292	Health Care	2,115	6
7	Cambridge Health Alliance	1,835	Health Care	1,713	7
8	Cambridge Innovation Center (3)	1,704	Start Up Incubator	1,678	8
9	Akamai Technologies	1,658	Internet Technology	1,544	10
10	Sanofi Aventis/Genzyme	1,500	Biotechnology	1,600	9
11	Draper Laboratory	1,440	Research & Development	1,229	12
12	Takeda Pharmaceuticals/Millennium	1,427	Biotechnology	1,411	11
13	Federal Government	1,218	Government	1,210	13
14	Broad Institute	1,174	Research & Development	1,122	14
15	Hubspot	1,118	Marketing Software	860	19
16	IBM (4)	1,112	Software Development	-	-
17	EF Education First	1,000	Travel & Education Programs	1,010	15
18	Google	1,000	Software Development	971	17
19	Pfizer	1,000	Biotechnology	1,000	16
20	Pegasystems	768	Software Development	723	20
21	Forrester Research	629	Business Services	611	21
22	Shire HGT/Baxalta (5)	580	Biotechnology	243	23
23	ABT Associates	550	Public Policy Consulting	322	29
24	InterSystems	550	Software Development	388	27
25	Shaw's Supermarkets/Star Market	531	Supermarket	-	-

Source: City of Cambridge, Community Development Department, Boston Globe, and cited employers except as noted.

- (1) All figures collected between 09/16 and 12/16, unless otherwise noted. All figures reflect employment within the City of Cambridge only. Whenever possible, totals are based on Full Time Equivalents (FTEs). Part time workers are counted as 0.5 FTEs, unless otherwise indicated by employer response.
- (2) City of Cambridge figures include School Department employees.
- (3) The Cambridge Innovation Center is a start-up incubator that houses employees from 587 companies.
- (4) IBM figure from Commonwealth of Massachusetts.
- (5) Baxalta, ranked 23rd in 2015, was acquired by Shire in 2016.

Unemployment

The City of Cambridge continues to enjoy a lower unemployment rate than the Boston Primary Metropolitan Statistical Area, the Commonwealth of Massachusetts, and the United States. The seasonally unadjusted rate as of December 2016 was 1.7% for Cambridge, 2.3% for the Metro area, 2.8% for the Boston-Cambridge-Quincy NECTA Division, and 4.5% for the United States.



Sources: US Department of Labor, Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey; Mass. Executive Office of Labor and Workforce Development, Labor Force and Unemployment Data, February, 2017.

Personal Income

The Bureau of Economic Analysis provides income figures computed using a variety of administrative sources covering various forms of income and transfer payments, as well as Census Bureau mid-year population estimates. Data for Cambridge is incorporated into the figures for the Cambridge-Newton-Framingham, MA Metropolitan Division ("Cambridge Metropolitan Division") and is subject to economic conditions throughout the region.

2015 per capita personal income (PCPI) in the Cambridge Metropolitan Division was 43.4% higher than PCPI for the United States, 10.2% higher than Massachusetts, and 1.1% higher than the Boston MSA.

Per Capita Personal Income

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Average</u>
United States.....	\$42,453	\$44,267	\$44,462	\$46,414	\$48,112	\$45,142
Massachusetts.....	55,233	57,194	57,165	59,603	62,603	58,360
Boston MSA.....	60,473	62,441	62,331	65,142	68,292	63,736
Cambridge.....	60,835	62,980	62,942	65,924	69,010	64,338
Cambridge as a % of MA.....	110.1%	110.1%	110.1%	110.6%	110.2%	110.2%
Cambridge as a % of USA.....	143.3	142.3	141.6	142.0	143.4	142.5

Source: US Department of Commerce, Bureau of Economic Analysis 2016; Bureau of Labor Statistics, 2016. Note: All dollar amounts are adjusted to 2015 dollars using the Consumer Price Index Research Series Using Current Methods (CPI-U-RS).

Local Economic Trends

The Cambridge economy is anchored by preeminent research institutions such as MIT, Harvard, the Broad Institute, and the Whitehead Institute, which act as magnets for commercial investment in the City and provide the foundation for an entrepreneurial, innovation driven economy. In particular, Broad, a joint venture of MIT, Harvard University, and Harvard-affiliated hospitals, serves as a beacon to the international life sciences community. The Institute provides a model for collaboration across disciplines and organizations with its deliberately ambitious goal to transform medicine.

Several recent reports by nationally recognized organizations attest to the strong position of Cambridge, the Boston region, and the Commonwealth of Massachusetts and to the strength of Cambridge's comparative advantage in the science and technology-based economy. The 2016 US Chamber of Commerce report "Innovation That Matters" ranks Boston-Cambridge as the startup city in the nation best positioned to lead the digital economy. The report cites the density of the innovation community, high availability of capital and calls out the high level of integration between the business community and universities, institutions like Broad, and the general public.

In 2016, Boston/Cambridge ranked #1 in Genetic Engineering & Biotechnology News "Top 10 U.S. Biopharma Clusters," which ranks cities based on NIH funding, venture capital funding, patents, and jobs. Also, Niche, which analyzes dozens of public data sets and millions of reviews to produce comprehensive rankings, ranked Cambridge as the #1 city for millennials in America. The Milken Institute Center for Jobs and Human Capital ranked Massachusetts first in the State Science and Technology Index in both 2014 and 2016.

In 2016, Governing Magazine ranked Massachusetts as the Best State Economy in the Country. Governing uses factors such as the current state unemployment rate; the improvement in the state unemployment rate over the past year; the per capita state GDP in 2015; the percent change in real state GDP between 2014 and 2015; the percent change in state personal income per capita, from the third quarter of 2015 to the first quarter of 2016; and the percentage growth in year-to-date increases in jobs for 2016.

The 2014 State New Economy Index, produced by the Information Technology & Innovation Foundation, ranked the Massachusetts economy as #1 in the nation. The Foundation found that the state's economy is the best positioned to respond to the evolution of an advanced technology-driven economy. Similarly, the Bloomberg State Innovation Index ranks Massachusetts as the most innovative state in the nation. In each case, it is Cambridge's position that helps drive a regional advantage that, in turn, lends further support to the city's strong performance.

Looking beyond local conditions, the 2017 Massachusetts economy is expected to continue its ongoing expansion, with economic growth remaining over 2% per annum according to MassBenchmarks.

As one of the primary drivers of the state's economy, Cambridge should expect to see outsize benefits from this trend. Statewide, employment is expected to continue to increase and unemployment to further decline, approaching full employment levels sometime later in the year. Cambridge, with a population whose median age is 31, will benefit as employers work harder to replace aging baby boomers, who have begun to retire in larger numbers.

Life Sciences and Technology

Cambridge continues to maintain and strengthen its position as a national leader in life sciences and high tech. As of 2016, Cambridge was home to at least 205 biopharmaceutical and biotechnology companies.

- In the Boston-Cambridge area there are over 250 biotech companies, the top 4 National Institute of Health-funded hospitals in the U.S., and 48 colleges and universities.
- The first quarter of 2016 saw the second highest amount of venture capital investment recorded in the state of Massachusetts, with \$853 million spent on the biotechnology industry.
- During 2016, five of the nine Massachusetts life science firms that sought public funding through an initial public offering (IPO) are headquartered in Cambridge. CRISPER Therapeutics, a Swiss firm with its R&D operations in Cambridge, also underwent an IPO.
- The largest IPO in Massachusetts in 2016 was Cambridge-based Intellia Therapeutics, which sold 6 million shares at \$18 a share, raising \$108 million.
- According to IPO Monitor, almost 20% of 2016 US biotech IPO activity involved Cambridge companies.

- Major biotechnology and pharmaceutical companies with a presence in Cambridge include: AbbVie, Amgen, Bristol-Myers Squibb, Gilead Sciences, Johnson & Johnson, Merck & Co., Novartis, Pfizer, and Sanofi (ranked by 2016 market capitalization).
- Thirteen of the 25 largest biotechs in Massachusetts have a major presence in Cambridge. MassBio reports that their average wage is \$147,000.
- In 2016, 55% of all Massachusetts biotechs receiving venture capital were located in Cambridge.
- Spectrum Encompass reports that Cambridge is the first city in the world with over 10 million s.f. of commercial lab space, comprising 55% of the regional inventory.

Expansion of the biotech and high tech industry continues apace:

- Akamai Technologies agreed to lease 630,000 s.f. in Kendall Square for \$698.4 million over a period of 15 years. This is the largest lease consideration for a real-estate deal in the state in at least three years.
- Over the past year major biotech leasing deals include:
 - Momenta Pharmaceuticals renewing and expanding their 320 Bent Street location to 183,700 s.f.
 - Seres Health expanding to 83,000 s.f. at 200 Sidney Street.
 - Takeda Vaccines, which is working to develop a Zika vaccine, taking 78,600 s.f. at 75 Sidney Street.
 - Intellia Therapeutics signing a new lease for over 65,300 s.f. at 40 Erie Street.
- Among high technology companies deals include:
 - Hubspot expanding by 67,000 s.f. at 25 First Street. By 2019 the company will occupy 300,000 s.f. at this location.
 - Fuze, formerly Thinking Phones Network, taking 33,000 s.f. at 10 Fawcett Street.
 - Amazon expanded into 30,000 s.f. at 1 Main Street.
 - CarGurus entering into two deals to expand their space by a total of 51,500 s.f. at 55 Cambridge Parkway.
- IBM Watson and Ariad Pharmaceuticals moved into 348,000 s.f. at 75-125 Binney Street and Celgene moved into 59,000 s.f. at 200 Cambridgepark Drive.
- Toyota Motor Corporation moved into 13,000 s.f. at 1 Kendall Square.
- Facebook, which has had a presence in the city for three years, is expanding to take over a whole floor at its One Broadway office, leasing 18,500 s.f. in total, up from 16,500 s.f.
- IBM Security, featuring a high-tech simulator where companies can go to test their ability to respond to various cyberattacks, leased a new 10,000 s.f. office at 75 Binney Street.
- Expansion of the biotech and high tech sectors is expected to continue into 2017 and beyond.
 - Alexandria Real Estate Equities" (ARE) 50-60 Binney Street property (541,000 s.f.), which is currently in the construction pipeline, is 100% leased to Sanofi Genzyme, and Bluebird Bio.
 - ARE's 100 Binney Street property (431,500 s.f.), also in the construction pipeline, is 49% pre-leased to Bristol-Myers Squibb. Both properties" expected completion is 2017.
 - Of particular note is the Akamai deal with Boston Properties, which calls for 454,000 s.f. of new construction to be delivered no later than 2019. A state grant of \$700,000 in tax breaks for this expansion requires the creation of 700 new jobs.

Innovation: Venture Capital and Incubators

Underpinning the boom in real estate investment activity is the city's growing volume of venture capital and angel capital investments in startups and growing companies. In recent years, several venture capital firms have either relocated to Cambridge or opened offices here to place themselves in closer proximity to potential investment targets. Almost 25 venture capital firms now have offices in Cambridge, including industry heavyweights such as Atlas Ventures, General Catalyst, and Greylock Partners.

Notable Venture Capital deals during 2016 include:

- Sense Energy, which is working on internet connected energy sensors and located in Harvard Square, received a \$14 million venture capital round from Venture Capital Arm of Royal Dutch Shell.
- Synlogic Biotech, which focuses on rare metabolic diseases and is located in Cambridgeport, received a \$40 million venture capital round.

- EverQuote Insurance, an insurance marketplace data broker located in Cambridgeport, received a \$23 million second round venture capital financing to expand business and its safe-driving mobile application and help transform industry.

Innovation and co-working centers are indicative of another strength of the Cambridge market: a strong and rapidly expanding community of innovation and entrepreneurship. Working in a symbiotic relationship with the venture capital community, the growing number of lab and office incubators offer a place for new ideas and products to take shape and attract the notice of funders:

- At the end of 2016, Cambridge offered 17 co-working spaces, up from 12 in 2015.
- By far the largest in the City of Cambridge, the Cambridge Innovation Center, hosts over 700 companies, employing over 1,700 people.
- Forsyth Institute, a century-old oral health research organization that relocated to Cambridge from Boston, is opening the Forsyth Entrepreneurial Science Center at its headquarters at 245 First Street, outside Kendall Square, to help its own scientists commercialize research and provide temporary work space for startups.
- WeWork rented a floor of a building at 625 Massachusetts Avenue in Central Square, with room for about 550 desks.

The combination of expansion of existing companies and continued investment in innovative startups provides a winning formula for Cambridge's continued economic stability and growth.

Housing

The presence of significant numbers of younger workers has led to renewed interest in the development of larger housing projects. The result is a surge in the development of well-located, investor-owned rental housing developments catering to the preferred lifestyle of this group. These projects typically include 100 or more units:

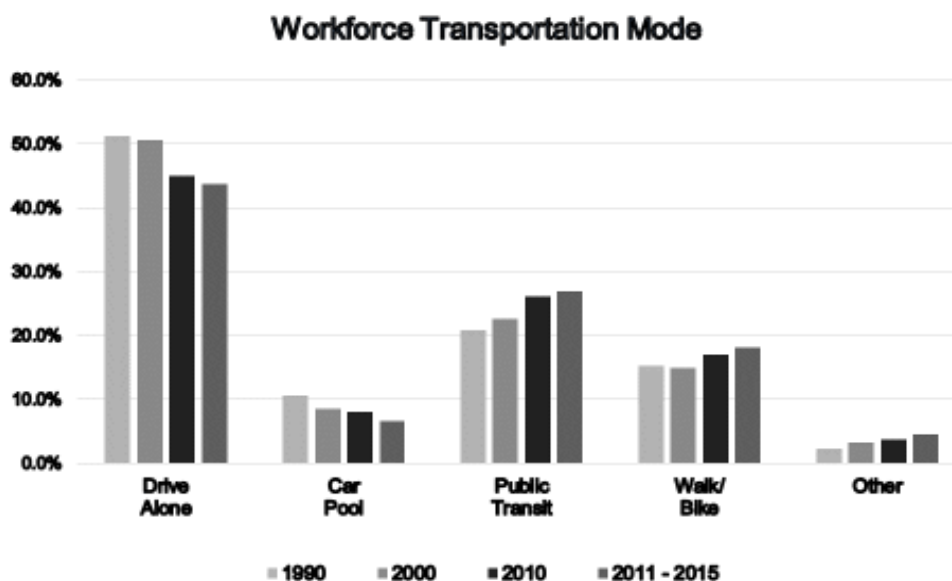
- The Alewife area, near the MBTA Red Line Station of the same name, has seen a heightened level of activity in recent years:
 - Over 1,300 units have been delivered since 2013 to present, including 227 units on Concord Turnpike, 429 units on Fawcett Street, 61 units on Concord Avenue, and over 600 units on Cambridgepark Drive.
 - 467 units are currently under construction at Cambridgepark Drive.
- In North Point and East Cambridge:
 - 2015 and 2016 saw the completion of 355 units in a new building located at 20 Child Street in the HYM North Point development, 392 units at the Zinc Building at 22 Water Street, 115 units at 159 First Street by Urban Spaces, and 91 units at 270 Third Street.
 - Work continues on 56 units at the Ivy Residences at 262 Monsignor O'Brien Highway. Delivery of this project is expected during 2017.
- In all, eight developments comprising almost 1,000 units are now in construction and will join the over 3,200 units completed from 2011 to 2016. A further 3,150 are approved for development. Over 800 additional units are now or will soon undergo permitting, further contributing to the development pipeline.
- Cambridge's Inclusionary Housing Program requires developers to create affordable units in larger developments for occupancy by households earning less than 80% of median income. Over the past three years, this program has increased the affordable housing stock by 173 affordable units. The City is in the process of revising and modernizing its Inclusionary Housing Ordinance.
- The City's Incentive Zoning Ordinance requires developers of commercial property to make payments to support the development of affordable housing in the city. The Ordinance was revised, updated, and the coverage expanded during 2016. Over the past year, the City has collected \$270,000 in incentive zoning payments.
- The City allocates 80% of total Community Preservation (CPA) funds towards affordable housing each year, through which it plans to preserve or create affordable housing via:
 - Preservation of affordable housing with expiring use restrictions
 - Acquisition of existing multi-family rental buildings to create affordable units
 - New construction of affordable housing
 - Conversion of commercial, industrial, and institutional properties into affordable housing
 - Financial assistance for first-time homebuyers

Transportation and Transit

The continuing expansion of the high tech and biotech sectors requires a robust transportation system to move workers to and from their places of employment. Cambridge addresses the challenge posed to an established, densely developed city by directing planning and infrastructure funding efforts to the full suite of transportation modes.

A variety of policies and physical interventions in the roadway network encourage workers to walk, bike, or take public transit to and from work. These efforts range from roadway and streetscape design promoting pedestrian and bike safety, funding of the EZRide Shuttle service, to regional leadership of the Boston bikesharing system, among others. In 2015, the newly constructed Western Avenue cycle track was named the best new bike lane in America by People for Bikes, a charitable foundation and a coalition of bicycling suppliers and retailers. Direct interventions are backstopped by a robust transportation demand management program covering developers, property owners, and tenants.

Cambridge is not a newcomer to this effort. The results over time can be seen in the graph on the following page, which shows a decline in workforce single occupancy vehicle (SOV) use as a means of transportation to work. The workforce SOV rate dropped by almost 7% between 2000 and 2011-2015 to 44%. Looking to the labor force, at 60% Cambridge has the third highest combined transit/walk/bike rate among peers nationwide. As a result of efforts many years in the making, Cambridge is poised to handle the transportation needs of a growing workforce and labor force in a sustainable manner, unlike many communities.



Source: City of Cambridge, Community Development Department, 2016.

Commercial Real Estate Market

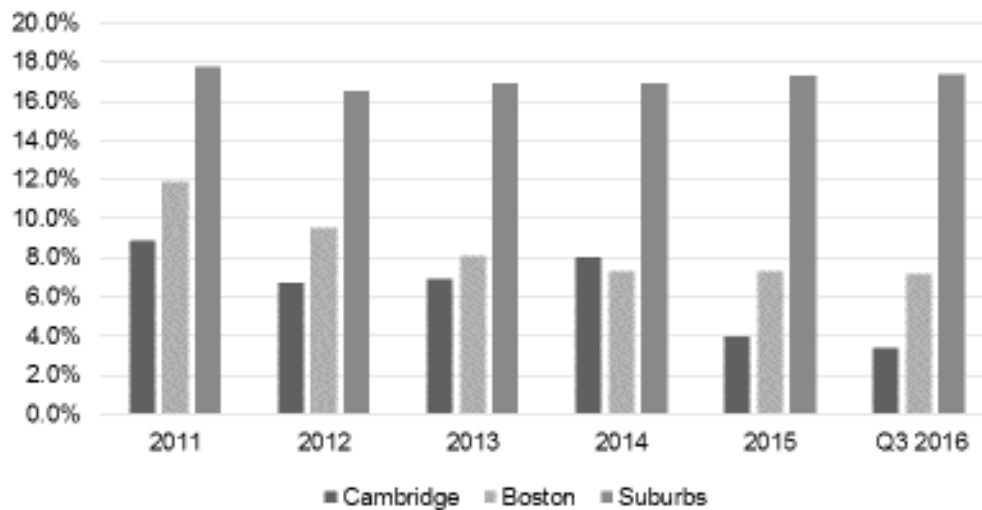
2016 marked another strong year for the Cambridge commercial real estate market. Vacancies again dropped to the lowest level in years while rents continued to increase. At this time, the market continues to experience a shortage of space, particularly larger blocks located in the Kendall Square sub-market. Major new development on the horizon at Cambridge Center by Boston Properties, around Kendall Square and at the Volpe Transportation Research Center by MIT, and at North Point by DivcoWest may help alleviate these shortages.

- From 2012 through 2016 Q3, Cambridge added approximately 3.1 million s.f. to its commercial real estate inventory.
- 950,000 s.f. of commercial space is under construction. An additional 4.4 million s.f. is permitted and ready-to-go.
- According CB Richard Ellis (CBRE), a national commercial real estate company, the City's Q3 2016 combined office/lab vacancy rate is 3.4%, compared to rates in the City of Boston and surrounding suburban markets of 7.2% and 17.4%, respectively. The Cambridge rate is down from one year ago,

when it stood at 4.0% for Q3 2015. This reflects the in-demand Cambridge market especially in the fields of biotechnology and high technology.

- The Q3 2016 lab rate vacancy rate is 3.0% and the office rate is 3.8%. These numbers mask deeper underlying scarcity. On the lab side, a third of vacant space has been committed and long-term options comprise only 0.5% of the market. On the office side, much of the available space also consists of sublease opportunities and large contiguous blocks are few and far between.
- Citywide, Q3 2016 saw historically high rents, averaging \$65.81/s.f. for office according to CBRE, with Class A space reaching as high as \$78/s.f. in the Kendall Square area according to Spectrum Encompass reports. Lab rates continued climbing to an average of \$74.72/s.f., according to CBRE. With minimal options for larger users, full service taking rents in desirable locations are approaching \$80.00/ s.f.

Real Estate Combined Vacancy Rates: 2011-2016



Source: CB Richard Ellis, 2016.

- The current annual net absorption rate is -3.7% from Q3 2015 to Q3 2016, using data supplied by CBRE. In markets as tight as the one in Cambridge, relatively small shifts in occupancy can have outsize and apparently contradictory effects on the absorption rate.
- Strong market conditions are anticipated to continue into 2017. CBRE reports demand for new office requirements of 1.3 million s.f. with much of the demand from small and medium size firms. On the lab side, remaining spaces are smaller and of lower quality while interest in the market has reached 2.5 million s.f., much of it from companies seeking over 50,000 s.f.
- In recent years, several developers have provided Cambridge with significant community benefits packages.
- The past year saw the completion of 539,000 s.f. of commercial space and almost 260 housing units in developments of 20 or more, including:
 - A 150-room Marriot hotel at Discovery Park in the Alewife district.
 - The 65-room Porter Square Hotel.
 - Completion of the second phase of the 241-unit Fuse apartments at 165 Cambridgepark Drive, also in Alewife.
 - A 238,000 s.f. office/R&D building at 610 Main Street, comprising the second phase of a development preleased to Pfizer by MIT.
 - A 218,000 s.f. addition to University Park at 300 Massachusetts Avenue preleased to Takeda with ground floor retail.
 - The 96-unit Chroma apartments at 240 Sidney Street.
- With the tight market, unsurprisingly the largest rental deals of the year were smaller in size, the largest new leases or expansions being Seres Health at 200 Sidney Street (83,000 s.f.), Momenta

Pharmaceuticals at 301 Binney Street (79,000 s.f.), Takeda at 75 Sidney (78,600 s.f.) and Hubspot continuing their expansion at 25 First Street (67,000 s.f.).

- Leasing deals of 25,000 s.f. or more include 20 new agreements or expansions totaling 960,000 s.f. and three renewals totaling 379,000 s.f.
- Several **notable property transactions** occurred in 2016:
 - Alexandria Real Estate Equities purchased the nine-building One Kendall Square complex from DivcoWest for \$725 million or \$1,041/s.f.
 - 245 First Street was purchased by Clarion Partners from Jamestown LP for \$311 million or \$1,197/s.f.
 - On the last day of 2015, King Street Properties sold 200 Cambridgepark Drive for \$165.5 million, or \$746/ s.f., to Morgan Stanley Real Estate Investing, twice the price paid for the building and improvements over the past 18 months.
 - L&B Realty purchased 1050 Massachusetts Avenue for \$46 million or \$733/s.f.
 - Cambridge College sold 1000 Massachusetts Avenue to Intercontinental Real Estate \$70 million of \$644/s.f.
 - MIT purchased 415 Main Street, formerly 7 Cambridge Center and home of the Broad Institute, from Boston Properties for \$105 million or \$456/s.f.

The **construction pipeline** includes 945,000 s.f. of commercial space and a number of medium or large residential buildings totaling 1,000 units. The typical construction time for these complex in-fill projects lasts from 24 to 48 months. All these locations are within walking distance of an MBTA rapid transit station and are well served by surface bus lines.

Projects underway include:

- 872,000 s.f. at 50/60 and 100 Binney Street by Alexandria, preleased to several large biotech and high tech companies.
- A 280-unit apartment building at 88 Ames Street in the heart of Kendall Square.
- Two apartment buildings on Cambridgepark Drive with 467 units and 27,000 s.f. of commercial space.
- A 265-unit apartment building in the North Point district being developed by Avalon Bay.

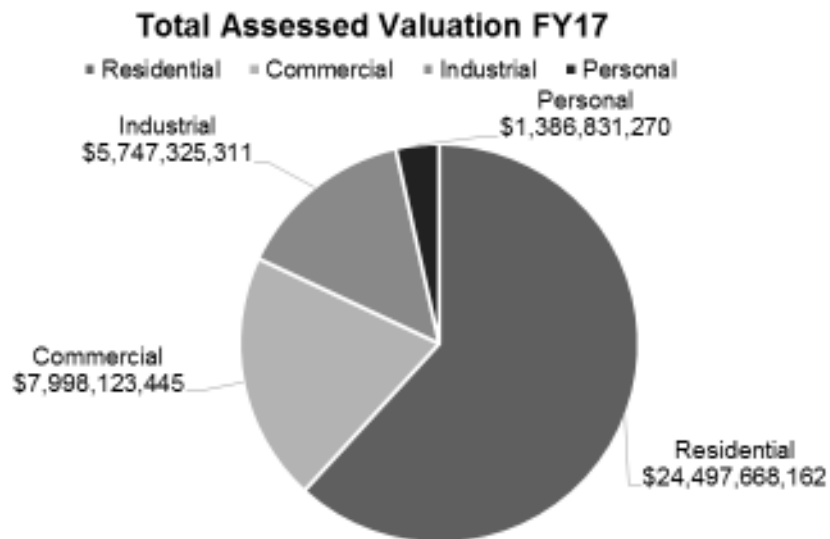
Additional development potential exists in several prominent locations. These projects, among others, will drive future development:

- In perhaps the most notable development of the year, the General Services Administration selected MIT to transform the 14-acre Volpe Center USDOT site from surface parking and isolated suburban style office buildings disconnected from their surroundings into a mixed-use, public-private development. The City is currently evaluating zoning for the parcel.
- Akamai Technologies, the internet backbone services company, and Boston Properties reached an agreement to develop a 454,000 s.f. building at 145 Broadway in Cambridge Center for occupancy by 2019. Boston Properties also agreed to develop an additional 380,000 s.f. building at 250 Binney Street for Akamai's use by 2021. A 2015 rezoning of Cambridge Center also allows for additional retail and 400,000 s.f. of housing.
- DivcoWest announced plans to develop two buildings totaling 800,000 s.f. in North Point. The approved master plan for the area provides for an additional 900,000 s.f. of office and retail construction.
- MIT has received permits to construct a \$1.2 billion, 1.7 million s.f. mixed-use development and campus extension, adjacent to Cambridge Center and the Kendall Square MBTA station, including 1.0 million s.f. of commercial space and 295 housing units.
- Twining Properties is seeking permits to redevelop several underutilized parcels in Central Square into over 300 apartments, with a goal of integrating under-developed and outmoded parcels into the evolving fabric of Central Square.
- Developer Urban Spaces has received permits for an assemblage of smaller parcels along First Street that allows development of 79,000 s.f. of office and retail space along with 136 housing units.
- Redevelopment of the Courthouse building at 40 Thorndike Street will convert 450,000 s.f. to taxable commercial use.

- The development pipeline includes 4.4 million s.f. in approved commercial development and 3,150 units, the majority of which will be market rate units, in medium to large rental developments owned by investors.

Assessed Valuation FY17

- Total assessed valuation for FY17 was \$39.6 billion, a \$4.9 billion or 14.3% increase over FY16. Commercial assessed value increased from \$7.1 billion in FY16 to \$8 billion in FY17. Industrial values increased from \$4.7 billion to \$5.7 billion. Personal property assessed value increased from \$1.2 billion to \$1.4 billion.
- Residential values increased by 11.84% to \$24.5 billion. The total number of residential abatement applications for FY17 was 76.
- The residential exemption for owner-occupied homes is 30%.
- The charts that follow show FY17 valuation by category as well as tax rates for the past five years:



Affordable Housing Initiatives/Community Preservation Act

- In November 2001, Cambridge voters approved adoption of the Community Preservation Act (CPA), a state law that allows the City to receive matching funds from the state for money raised locally in support of affordable housing, historic preservation, and open space initiatives.
- The local portion of CPA funding raised through a 3% surcharge on taxes is exempt from Proposition 2 ½. The first \$100,000 of residential property and certain low-income properties are also exempt.
- Through FY17, the City has appropriated/reserved a total of \$167.8 million in CPA funds, of which \$48.8 million is attributable to state matching funds.
- To date, Cambridge has received more CPA matching funds from the Commonwealth than any other participating community. In FY17, the state match is anticipated to be approximately 20%, and is projected to decline as more communities adopted CPA.
- Since 1994, the City has allocated approximately \$154.1 million to the City-sponsored Affordable Housing Trust from local taxes and CPA funds. These funds have enabled the development or preservation of 3,700 units of affordable housing.

The CPA funds are allocated as follows: 80% to affordable housing and 10% each to open space and historic preservation.

FY17 CPA Committee Recommendations

Expenditures	
Affordable Housing	\$9,840,000
Historic Preservation	1,230,000
Open Space	1,230,000
Administration	<u>10,000</u>
Total	\$12,310,000
Revenues	
Local Funds	\$8,600,000
State Match	1,600,000
Fund Balance	<u>2,110,000</u>
Total	\$12,310,00

Source: City of Cambridge, Finance Department.

Economic Development Districts

The City guides development through an orderly process, utilizing zoning strategies, planned unit development, and control over infrastructure. In recent years commercial growth has focused on a broad arc across the eastern part of the City, starting at University Park near Central Square, extending through the Osborn Triangle, down Main Street to Kendall Square, then continuing across the East Cambridge Riverfront to North Point. A second focal point for commercial development is in the western part of the City, encompassing Discovery Park located off Route 2, Cambridgepark Drive and the Alewife Quadrangle north of Concord Avenue.

Presented below is a summary of recent and current economic activities and future potential of several major economic development districts:

Concord/Alewife

The Concord/Alewife area acts both as an office/R&D district and an active retail hub serving neighborhood residents and workers as well as commuters heading to destinations outside Cambridge. The business presence in the area is varied, with tech-driven organizations such as Forrester, Raytheon/BBN, and the Smithsonian Astrophysical Observatory headquartered here, a reinvigorated high-tech and biotech presence along Cambridgepark Drive, a retail shopping district anchored by Whole Foods, Trader Joes, TJ Maxx, and Staples, and a number of smaller light industrial firms. A 2006 comprehensive rezoning of the area set the stage for a recent wave of residential development that is transforming the area, adding a live/work element to the district. The City is currently studying zoning and urban form in Alewife with a goal of developing a new vision for the district that strengthens and balances a strong economic base, the emerging residential community, and challenges posed by climate change.

A substantial stock of **commercial development** traditionally defines the character of the area:

- The Discovery Park subdistrict includes the commercial properties along Acorn Drive. 2016 saw the construction and delivery of the 150-room AC Hotel managed by Marriott at 10 Acorn Park Drive. Discovery Park also includes capacity for two permitted office buildings at 20 and 30 Acorn Park Drive, totaling 228,000 s.f.
- The Triangle subdistrict along Cambridgepark Drive contains about half a dozen office/R&D buildings that have undergone a renaissance over the past two years. In the past this subdistrict tended to experience high vacancy rates, but that is no longer the case as buildings acquired new owners who invested capital to update facilities.
 - During 2014 and 2015, eight buildings located on Cambridgepark Drive sold for a combined \$447.6 million. The largest sale occurred at the end of 2015 when King Street Properties sold 200 Cambridgepark Drive for \$165.5 million or \$746/s.f. to Morgan Stanley Real Estate Investing, twice the price paid for the building and improvements over the past 18 months.

- The Davis Companies have filed for a permit to renovate and expand the 140,000 s.f. office/R&D building at 35 Cambridgepark Drive, adding a 47,000 s.f. addition in the process.
- The Quadrangle sub-district has a mixture of industrial, service, medical, and technology companies. This is the city's last large geographic area with significant unpermitted development potential, totaling over 3.0 million s.f.
- Retail development in the Fresh Pond sub-district, along Fresh Pond Parkway and anchored by the Fresh Pond Shopping Center, totals around 400,000 s.f.
- All told, 4.6 million s.f. of commercial developments are found in the different sectors of the Concord/Alewife district.
- Major leasing activity in Alewife over the past year includes:
 - 59,433 s.f. by Celgene at 200 Cambridgepark Drive
 - 33,000 s.f. by Fuze, formerly ThinkingPhones Network, at 10 Fawcett Street

Over the past several years, Alewife has emerged as a **new residential neighborhood**. Several large projects completed or underway are designed to cater to technology workers and empty nesters:

- In the Triangle sub-district, new housing development is replacing underutilized parking lots. The Hanover Company took delivery of 398 units at 160 Cambridgepark Drive late in 2014. The Hines Interests completed the 241-unit Fuse Apartments at 165 Cambridgepark Drive. 213 units are under construction at 130 Cambridgepark Drive. A 541-space parking garage and associated commercial space are under development to prepare the way for 254 units at 88 Cambridgepark Drive.
- All these projects join a 311-unit rental building across the street from the nearby Alewife MBTA Station.
- To the north, in the Discovery Park/Concord Turnpike sub-district, 244 units at Vox on Two at 223 Concord Turnpike were brought on-line in 2014.
- Further south in the Alewife Quadrangle sub-district, 429 residential units at 80-90 Fawcett Street and 61 units at 603 Concord Avenue both support the nearby Fresh Pond retail environment. Both developments replace underutilized properties, a warehouse, and a gas station, respectively.
- Upcoming residential development in the Quadrangle includes a 44-unit building at 95 Fawcett Street, replacing an older warehouse, and 49 units at 597-605 Concord Avenue, replacing a drive-up bank branch. The Concord Avenue project includes replacement retail space.
 - A permit was granted at the end of 2014 for a 93-unit development at 75 New Street, adjacent to an existing 54-unit residential building and across from Danehy Park in the Fresh Pond Shopping Center sub-district.

Porter Square

Porter Square serves both local and regional markets. This Massachusetts Avenue corridor successfully combines retail, residential, and entertainment uses. Anchored by the Porter Square Shopping Center, this commercial district is vibrant and healthy.

- The presence of Lesley University in Porter Square, including its College of Art & Design, brings the energy of student life to the area.
- In 2015, the University finished constructing a new home for the College of Art & Design, which included the relocation and conversion of a prominent church structure. The Lunder Arts Center at 1801 Massachusetts Avenue adds a major new destination to the area.
- A significant addition to the commercial building stock is the 65-room Porter Square Hotel, a boutique hotel recently completed at 1924 Massachusetts Avenue.
- Other permitted projects in this area include a new 46-unit housing project at the intersection of Beech Street and Massachusetts Avenue, a 20-unit retail/residential building under construction at 1971 Massachusetts Avenue, and a 27-unit development at 1868 Massachusetts Avenue. All these projects include street-level retail or restaurant space, which will enhance the pedestrian environment and vibrancy of the area.

Harvard Square

Harvard Square thrives on a unique blend of retail, entertainment, and cultural attractions that are rooted in history, academia, and the arts. Harvard Square's mix of historical atmosphere, academic hub, and modern shopping

attracts residents, business people, and visitors from around the world. With 900,000 s.f. of retail space, Harvard Square functions as a regional shopping destination with a strong presence by unique retailers in an urban, pedestrian-friendly environment.

- Harvard University has two significant projects underway in Harvard Square. The JFK School of Government is constructing a 77,000 s.f. expansion at 79 JFK Street. A major rehabilitation is taking place at the 95,000 s.f. Smith Campus Center in the heart of Harvard Square.
- During October 2016, L&B Realty purchased 1050 Massachusetts Avenue for \$46 million or \$733/s.f. from CBRE and at the end of 2016, Cambridge College sold 1000 Massachusetts Avenue to Intercontinental Real Estate for \$70 million or \$644/s.f.
- In 2016, Charles River Analytics renewed and expanded its existing lease at 625 Mount Auburn Street. Charles River Analytics develops intelligent systems for government and commercial customers and will take its additional space in increments, ultimately leasing 83,200 s.f. by 2018.
- In 2015, the New York developer Equity One purchased the Corcoran Building (41,000 s.f.) at 5 JFK Street and 24 Brattle Street for \$85 million. They are currently developing plans to expand and upgrade the retail and office space at the location.
- Permitted projects around Harvard Square include an 18,000 s.f. commercial expansion at 57 JFK Street and a 25,000 s.f. mixed-use building at 16-18 Eliot Street with 12,000 s.f. of retail and 15 housing units.
- At 114 Mt. Auburn Street, the Carpenter Company completed an 83,000 s.f. building in 2015, and preleased it to Harvard University for office use. In late 2016, Flour, an upscale bakery, opened in the ground floor retail location.
- In the fall of 2014, Harvard University opened the new Harvard Art Museums complex, incorporating the Fogg, Busch-Reisinger, and Arthur M. Sackler Museums. This \$350 million renovation and expansion designed by Pritzker Prize-winning architect Renzo Piano includes 204,000 s.f. on seven levels.

Harvard Square has seen a series of infrastructure improvements in recent years.

- A \$4.1 million enhancement project completed in 2008, funded by the City coupled with a \$1.3 million donation from Harvard University, laid the basis for the current configuration of the Square, bringing updated lighting, pedestrian-friendly sidewalks, and crosswalks to the area.
- A project to rebuild several side streets and a portion of JFK Street finished in 2012.
- In the fall of 2014, the City completed repairs to a major vehicular underpass in Harvard Square, which provides a critical transportation link to the district. This latest project includes a series of ground level street and sidewalk improvements undertaken in cooperation with Harvard University. The project scope included a major renovation and reactivation of a ground level plaza, which plays a key role in connecting sections of the Harvard campus.
- During the 2015 construction season, a series of roadway and sidewalk improvements were completed on the section of Mt. Auburn Street near the intersection with JFK Street.
- The City is currently planning for the reconstruction of the Eliot Loop and redesign of the Harvard Square Kiosk.

Central Square

Central Square is the city's traditional downtown retail district. The district has undergone a series of infrastructure improvements in recent years that have added to the vitality of street life and increased the desirability of street level retail throughout the area.

- Western Avenue, which links the Square to the MassPike, is one of the major arteries that defines the character of the district. In 2015, the City completed a \$20 million improvement project that improved traffic flow, performed major stormwater management/infrastructure upgrades, added pedestrian safety features, and constructed an off street bicycle track. In 2015, the bike track was named the Best New Bike Lane in America by People for Bikes.
- In 2008, the Massachusetts Avenue/Lafayette Square section completed reconstruction tied to the reconfiguration of roadways related to the University Park project. Lafayette Square includes a new pedestrian plaza, lighting, and landscaping, provides a welcoming gateway to Central Square, and links the area to the mixed-use University Park, the MIT campus, and the Charles River.

In 2013, the City delivered a planning and urban design study of Central Square, Kendall Square, and the transition area between. The effort aimed to create a new vision to guide future development throughout the area. Developers and the business community have responded by expressing renewed confidence in the area.

- Developer Twining Properties has submitted a permit application for the Mass & Main project in Central Square. The proposal includes over 4,800 s.f. in retail, 283 new housing units, and 146 parking spaces. The new development will replace underutilized low-rise office space and a small parking garage.
- In 2017, Target will open a two-story 21,000 s.f. store in the heart of Central Square located at 564 Massachusetts Avenue.
- In 2016, WeWork rented a floor of a building at 625 Massachusetts Avenue in Central Square, with room for 550 desks.
- In 2015, Workbar opened a very popular co-working space at 45 Prospect Street in the heart of Central Square.
- Nearby on Massachusetts Avenue, H-Mart, an Asian inspired supermarket with stores throughout the country, opened a new retail store in 2014 in the heart of Central Square.
- The Planning Board has granted approval to 3 MJ Associates LLC to develop a 46-unit, 50,000 s.f. residential and retail development at 10 Essex Street.
- A 58-room hotel is proposed for 907 Main Street.

University Park/Cambridgeport

Cambridgeport highlights the City's dramatic and successful reuse of former industrial sites as locations for cutting edge research. Emerging technology companies revitalized older buildings while Forest City redeveloped a former industrial site into University Park, which caters to biotechnology and high tech companies.

The original plans for University Park, a 21-building, 2.3 million s.f. mixed-use development of office, commercial, and residential space managed by Forest City, are complete. Major tenants include Takeda/Millennium Pharmaceuticals, Partners Healthcare, Alkermes, Agios Pharmaceuticals, Aveo Pharmaceuticals, the vaccines division of Novartis, and Ariad Pharmaceuticals, which just announced its acquisition by Takeda. Forest City reports that all existing buildings are fully leased at the current time. In 2016, Forest City expanded University Park by completing construction of a 218,000 s.f. lab building for Takeda at 300 Massachusetts Avenue, which includes 15,000 s.f. of ground floor retail.

Following renovation of the historic NECCO candy factory near MIT, Novartis AG, the Swiss pharmaceutical company, relocated its world research headquarters to Cambridge, and added another 65,000 s.f. of office and ground floor retail space. In 2015, Novartis doubled the size of the firm's research campus by opening 573,000 s.f. of research space in three buildings at 181 Massachusetts Avenue. Novartis now has 2,365 employees in Cambridge, making it the second largest biotech employer in the city. In October, the company announced its intention to expand operations and employment in Cambridge by adding two new research teams.

Other significant activity in the district during 2016 includes:

- Completion of 96-unit Chroma Apartments at 240 Sidney Street on a former industrial site.
- Two leases were executed at 40 Erie Street: Intellia Therapeutics took 65,000 s.f. and Neon Therapeutics leased 25,000 s.f.
- Seres Therapeutics and Abbvie moved into 83,000 and 43,000 s.f. respectively at 200 Sidney Street.
- Takeda Vaccine, which is working to develop a Zika vaccine, expanded into 78,500 s.f. at 75 Sydney Street while Voyager Therapeutics expanded into 26,000 s.f. in the same building.

Kendall Square/Cambridge Center

The Kendall Square area, adjacent to MIT, is a worldwide locus for R&D and life sciences activity. The district includes developments such as Cambridge Center, Technology Square, One Kendall Square, Cambridge Research Park, and the Alexandria Real Estate Equities development parcels along the Binney Street corridor. The area is a center of the biotechnology industry and is home to such established companies as Sanofi/Genzyme, Pfizer, Biogen, Amgen, and Shire, which recently acquired Baxalta's Cambridge operations as part of a \$32 billion buyout. Emerging biotech companies in the area include Ironwood Pharmaceuticals, Momenta Pharmaceuticals, bluebird bio, and Alnylam Pharmaceuticals. Several major technology firms are headquartered here or have a

major presence in the area, including Draper Laboratories, Akamai Technologies, Pegasystems, Microsoft, Google, Amazon, and Facebook.

Colliers noted recently, “The number of companies moving to or expanding in the Kendall Square area have greatly enhanced vitality of the district, both during the business day and later in the evening. Over the past few years, the list of companies moving to or growing around Kendall Square includes a number of up-and-coming biotech firms, research outposts for several major pharma firms, and a strong showing by high tech giants like Google, Microsoft, Akamai, Facebook, and Amazon. This business expansion has injected thousands of additional employees into the lunchtime crowds frequenting restaurants and stores. Over the past five years, Kendall Square has become an evening and weekend destination for dining and entertainment.”

The **dynamic startup environment** is driven by numerous venture capital firms and incubators that have set up shop in the area. Notable examples include:

- Ten of Cambridge’s 17 incubators and co-working spaces are located in or close to Kendall Square.
- In 2016, Mass Innovation Labs reconfigured its 124,000 s.f. first-class facility catering to growing and break out biotech firms to expand capacity to include another six companies. The incubator is currently seeking 100,000 s.f. in expansion space.
- The Cambridge Innovation Center, a key element in the Kendall Square ecosystem, provides incubator space for over 700 firms with over 1,700 employees as well as services to many other companies and individual innovators.
- Lab Central, a 27,000 s.f. biotech-capable shared lab facility for life science startups, opened in November 2013 at 700 Main Street and has now expanded with the help of an additional \$5 million from the Massachusetts Life Sciences Center.
- Target opened their Food and Future CoLab at 80 Broadway in Cambridge, a collaboration with MIT Media Lab and IDEO to explore the future of food.
- Sixteen venture capital firms have offices in or near Kendall Square. German-based Boehringer Ingelhiem Venture Fund opened offices in the area during 2013 and MPM Capital relocated its Boston office to Kendall Square during 2015. During 2016, European biotech Leo Pharma opened a Kendall Square office to seek out partnership opportunities.

The Kendall Square area includes an **active development pipeline**:

- In a key step affecting the future of Kendall Square, in November 2016, the US GSA chose MIT to redevelop the Volpe Transportation Center. This project will transform a 14-acre site at the heart of the greater Kendall Square area from surface parking and isolated suburban style office buildings disconnected from their surroundings into a mixed-use, public-private development. The City is currently evaluating options for rezoning of the parcel. The first step in the overall project will be construction of a roughly 400,000 s.f. replacement for the existing government transportation research building.
- MITIMCo, MIT’s real estate development arm, completed construction on a 238,000 s.f. second building at its 610 Main Street property near Kendall Square. Both buildings are leased by Pfizer.
- Alexandria Real Estate Equities has two buildings under construction, a 485,000 s.f. office/R&D building at 50 Binney Street and a 388,000 s.f. R&D building nearby at 100 Binney. Sanofi’s Genzyme unit and bluebird bio will both relocate their corporate HQs to 50 Binney Street, while Bristol-Myers Squibb will anchor 100 Binney.
- MIT and MITIMCo received approval for a 1.7 million s.f. redevelopment. The project area incorporates a series of parking lots and outmoded properties falling between Main Street and Memorial Drive. Plans call for almost 1.0 million s.f. of office/R&D and retail for this area, along with opportunities for 330,000 s.f. of institutional expansion. 295 housing units and 37,000 s.f. of retail are proposed for the portion of the project area north of Main Street, at 1 Broadway.
- Draper Laboratories is planning a \$60 million addition to its Technology Square headquarters and an increase of 60 jobs to support commercial space projects.
- Late in 2015, the City Council rezoned the MXD district, comprising the Cambridge Center portion of Kendall Square. In 2016, Boston Properties followed up this approval by submitting an application for a multi-building project, which will include 772,000 s.f. of commercial office space, 425 residential units, and 809 parking spaces.

- Alexandria Real Estate Equities purchased One Kendall Square from DivcoWest for \$725 million or \$1,124/s.f. Subsequently, the firm has received approval to construct a new 173,000 s.f. building on a portion of the site at 399 Binney Street.
- MIT purchased 415 Main Street, also known as 7 Cambridge Center and the location of the Broad Institute, for \$105 million or \$426/s.f.
- Clarion Partners purchased 245 First Street from Jamestown LP for \$311 million or \$1,197/s.f. Jamestown purchased the property three years earlier for \$193 million.

2016 saw several large leases and expansions:

- Akamai Technologies agreed to lease 630,000 square feet in Cambridge Center for \$698.4 million over a period of 15 years. This is the largest lease consideration for a real-estate deal in the state in at least three years. Boston Properties will construct a 145,000 s.f. building for occupancy by 2019 and an additional 380,000 s.f. building for Akamai's use by 2021. This project will allow Akamai to consolidate s.f. while remaining in Cambridge.
- In 2016, Microsoft renewed its lease in Cambridge for 155,800 s.f.
- Momenta Pharmaceuticals renewed their 104,700 s.f. lease at 320 Bent Street and added 79,000 s.f. at 301 Binney Street.
- CRISPR sublet nearly 66,000 s.f. at 610 Main Street South.
- Amazon took an additional 30,000 s.f. at 101 Main Street, bringing their total at that address to 150,000 s.f.
- Facebook took over an entire floor of 1 Broadway and expanded their employment in Cambridge to 150 positions.
- Other major 2016 leases include:
 - KSQ Therapeutics - 610 Main Street North, 33,000 s.f. lab
 - ModeRNA – 500 Technology Square, 59,000 s.f. lab
 - Surface Oncology- 50 Hampshire Street, 32,018 s.f. lab
 - Amazon - 101 Main Street, 30,000 s.f. expansion, office
- Ariad Pharmaceuticals and IBM's Watson Health unit moved into Alexandria Real Estate's 75-125 Binney Street property, a 348,000 s.f. R&D building.
- Large blocks of contiguous first class space remain hard to find. Cresa reports only three blocks larger than 20,000 s.f. in all of eastern Cambridge. Lab space, in particular, is in short supply. By the third quarter of 2016, average rents for Kendall Square lab space exceeded \$74/s.f. according to CBRE, with Class A rents around \$80/s.f. Office rents are not far behind at \$66/s.f. with Class A space over \$70/s.f.

In recent years, Kendall Square has come into its own as a residential destination, with completion of 1,300 housing units designed for a highly educated workforce prepared for 21st century industries. Housing developments support the emerging retail market in the area and help house the high tech/biotech workforce necessary to make the area thrive. The recent surge in development has led to a new round of housing development in the district.

The Housing pipeline includes:

- 280 units under construction at 88 Ames Street by Boston Properties. The City aided this project through a land disposition agreement for a portion of the parcel.
- 84 units permitted at 249 Third Street.
- 295 Units permitted at 1 Broadway as part of MIT's Kendall Square project.
- Boston Properties is requesting 425 housing units as part of its MXD infill permit request.

Significant existing housing properties include:

- The original Watermark Building (321 rental units)
- Watermark II (144 rental units)
- Third Square at 303 Third Street (482 units)
- 265 Third Street (189 units)
- 270 Third Street (91 units)
- 159 First Street (115 units)

In a move that will add to Kendall Square's appeal to both workers and residents, the City is designing a new park system for the area, combining property contributed by Alexandria Real Estate, the Cambridge Redevelopment Authority, and the City. To promote creativity and innovative ideas, the Community Development Department ran a planning and design competition to develop a comprehensive open space plan for the area. Construction is expected to begin during 2017.

East Cambridge/Riverfront/Cambridgeside Galleria

Over the years, \$50 million in public improvements have stimulated conversion of the East Cambridge Riverfront district from older industrial uses to a vibrant office, retail, and residential community.

The Cambridgeside Galleria, a regional destination mall encompassing 1 million s.f. of retail space, and adjacent public parks anchors the district. The Galleria's restaurants and shops and nearby hotels serve many of the consumer needs of local residents, MIT students and faculty, R&D employees who work within the district, and workers from nearby Kendall Square and North Point. The total private development completed in East Cambridge since 1990 includes over 2.8 million s.f. of new and renovated office/R&D and retail space, over 600 hotel rooms and over 900 housing units.

- Recent major leases include:
 - Renewal and expansion by Hubspot into 185,000 s.f. at 25 First Street. The company plans to occupy 300,000 s.f. at this location within the next few years.
 - Hubspot – One Canal Park, 25,000 s.f.
 - Editas Medicine - 11 Hurley Street, 59,700 s.f. lab
 - CarGurus - 55 Cambridge Parkway, 51,500 s.f. office
 - Allosterly Pharma – 215 First Street, 41,000 s.f. lab
 - Compass Therapeutics - 245 First Street, 25,000 s.f. lab
- Rehabilitation of the public courthouse at 40 Thorndike Street will when complete add 487,000 s.f. of commercial office space, retail and 24 housing units to the area.
- The tight market in nearby Kendall Square has reinvigorated the commercial office market around East Cambridge. Canal Park, in particular, has benefited. In 2016, Beacon Capital sold a three-building complex with 426,000 s.f. at 1, 2, and 10 Canal Park to International Real Estate. The transaction totaled \$304 million or \$713/s.f. for properties purchased two years earlier for \$170 million.
- Residential expansion continues apace in the area. In 2015, a project added 115 units at 159 First Street. The Housing pipeline includes:
 - 107-119 First Street permitted for 118 housing units
 - 161 First Street permitted for 129 housing units

North Point

The North Point district encompasses an 80-acre area north of the Monsignor O'Brien Highway adjacent to East Cambridge. The area includes over 2,000 completed residential units, including 750 delivered during 2015. The North American headquarters for EF, a for-profit educational services company, is located in North Point adjacent to a waterfront park with pedestrian connections to Charlestown.

In a major commercial real estate sale in 2015, DivcoWest purchased the 42-acre North Point development site from Canyon Real Estate Partners for \$291 million. The area has been described as Cambridge's "last frontier" and represents one of the largest remaining infill opportunities in Greater Boston. When built out over a 15 to 20-year period, the project will create an entirely new neighborhood of 4.5 million s.f. and will feature 1.9 million s.f. of office/R&D, hospitality, and retail space, 10 acres of open space, and 2,400 to 2,700 housing units. DivcoWest is exploring options, and the company expects to submit a permit request for at least one commercial building during 2017.

2016 and 2015 saw several milestones in North Point:

- In 2016, Avalon Bay began construction at 2 Leighton Street for 265 residential units and 212 parking spaces.
- 56 residential units are under construction at the Ivy Residences at 262 Monsignor O'Brien Highway.

- In 2015, HYM North Point completed construction of a third residential building included in the North Point area. 20 Child Street, also known as Building N or Twenty|20 NorthPoint, has 355 units and ground floor retail space. This effort raises the total units constructed by the overall North Point project now owned by DivcoWest to 684.
- In 2015, Monogram Apartments completed the 392 unit Zinc Building residential development at 22 Water Street.
- The 123 room Fairfield Inn and Suites finished construction and opened at 219 Monsignor O'Brien Highway.
- In 2015, EF Education First received final occupancy permits for their 295,000 s.f. North American headquarters. The company is exploring the construction of a third building in North Point on land that the company would purchase from the state.

Industry and Commerce

Employers and developers find the City attractive due to its close proximity to Boston, extensive public transportation, an excellent network of roads, and the City's commitment to encouraging planned development. The location of two major universities, Harvard University and the Massachusetts Institute of Technology, within the City's borders contributes significantly to its vitality and growth.

The following table lists the major categories of employment with payrolls in the City.

Industry	Calendar Year Average				
	2011	2012	2013	2014	2015
Construction & Natural Resources	1,057	1,096	1,147	1,183	1,302
Manufacturing	2,775	2,810	2,850	2,809	2,997
Trade, Transportation and Utilities	9,528	9,710	9,870	10,230	10,295
Financial Activities	2,824	2,977	2,937	3,276	3,203
Professional and Business Services	32,881	34,297	35,986	36,134	38,289
Education and Health Services	37,786	37,940	38,934	38,036	38,955
Leisure and Hospitality	9,500	10,028	10,391	10,463	11,023
Information & Other Services	6,234	6,410	6,042	6,268	6,912
Public Administration	2,979	2,998	3,277	3,130	2,962
Total Employment	105,564	108,266	111,434	111,529	115,938
Number of Establishments	4,445	4,421	4,551	4,798	4,953
Average Weekly Wages	\$ 1,882	\$ 1,850	\$ 1,913	\$ 1,990	\$ 2,124
Total Wages	\$ 10,336,806	\$ 10,419,037	\$ 11,092,951	\$ 11,549,374	\$ 12,820,072

SOURCE: Massachusetts Department of Employment and Training. Data based upon place of employment, not place of residence. Due to the reclassification the U.S. Department of Labor now uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

Labor Force, Employment and Unemployment Rate

According to the Massachusetts Department of Employment and Training data in December 2016, the City had a total labor force of 65,022 of which 63,923 were employed and 1,099 or 1.7% were unemployed as compared to 2.8% for the Commonwealth.

The table below sets forth recent trend in the City's average labor force, employment and unemployment rates for the following calendar years and also the unemployment rates for the Commonwealth and the United States.

UNEMPLOYMENT RATES

Year	City of Cambridge			Massachusetts	United States
	Labor Force	Employment	Unemployment Rate	Unemployment Rate	Unemployment Rate
2015	63,861	61,847	3.2 %	5.0 %	5.3 %
2014	63,309	61,031	3.6	5.7	6.2
2013	61,523	58,915	4.2	6.7	7.4
2012	60,801	94,280	4.1	6.7	8.1

SOURCE: Mass. Department of Employment and Training, Federal Reserve Bank of Boston and U.S. Bureau of Labor Statistics. Data based upon place of residence, not place of employment. Monthly data are unadjusted.

Housing and Construction Activity

The data in the following tables are presented to illustrate various housing characteristics for the City of Cambridge. The figures for the number of buildings shown are for taxable property only and do not include units under the Cambridge Housing Authority or other subsidized units and university dormitories. The number of buildings by type are as of January 1, 2016.

PARCEL COUNT BY TYPE As of January 2016

Type of Housing	Number of Parcels
One-Family	3,871
Two-Family	2,468
Three-Family	1,227
Four or More Units	843
Vacant Land	146
Condominiums	14,282 (1)
Multiple-Use	328
Mobile/Multiple on One Parcel	143
Total	23,308

SOURCE: City of Cambridge Department of Finance.

(1) Represents the number of units.

VALUE OF NEW CONSTRUCTION (1) AND DISTRIBUTION BY TYPE Fiscal Years 2012-2016

Fiscal Year	RESIDENTIAL		COMMERCIAL		TOTAL
	Value	% Distribution	Value	% Distribution	
2016	\$290,938,372	18 %	\$1,312,521,571	82 %	\$1,603,459,942
2015	92,016,260	6	1,390,774,889	94	1,482,791,149
2014	87,792,187	10	1,097,508,305	90	1,185,300,492
2013	264,204,809	20	1,056,819,238	80	1,321,024,047
2012	213,040,018	19	932,952,550	81	1,145,992,568

SOURCE: City of Cambridge Inspectional Services Department.

(1) Includes improvements to existing properties.

Income Levels and Population Characteristics

The following table compares federal census data for the City, the County and the Commonwealth.

	<u>Cambridge</u>	<u>Middlesex County</u>	<u>Massachusetts</u>
Median Family Income:			
2015 (5-year estimates)	\$ 104,454	\$ 107,772	\$ 87,085
2013	155,931	83,867	63,784
2012	151,101	82,684	63,105
2011	144,017	82,009	62,735
2010	136,843	81,165	63,331
Per Capita Income:			
2015 (5-year estimates)	\$49,453	\$44,152	\$36,895
1999	31,156	31,199	25,952
1989	19,879	20,343	17,224
1979	7,957	8,439	7,457
1969	N.A.	N.A.	N.A.

SOURCE: Federal Bureau of the Census.

<u>Characteristic</u>	<u>Cambridge</u>	<u>Boston MSA</u>	<u>Massachusetts</u>	<u>United States</u>
Population (2010)	105,162	1,503,085	6,547,629	308,745,538
Median Age				
2010	30.2	38.5	39.1	37.2
2000	30.4	36.2	36.5	35.3
1990	31.1	33.4	33.6	32.9
1980	28.6	31.3	31.2	30.0
1970	26.8	29.1	28.0	28.0
1960	29.6	32.0	32.1	29.5
Age Group (2010 data)				
0 - 4	4.30 %	5.70 %	5.61 %	6.54 %
5 - 17	7.13	15.62	16.06	17.48
18 - 24	20.78	9.53	10.35	9.93
25 - 44	40.61	28.70	26.46	26.60
45 - 64	17.67	27.34	27.73	26.39
65 and over	9.50	13.11	13.79	13.04
Total	100.00 %	100.00 %	100.00 %	100.00 %
Four or more years of college education 25 years or older (2011-15 data)	75.10 %	44.60 %	40.50 %	29.80 %
High school graduates 25 years or older (2011-15 data)	94.30 %	91.00 %	89.80 %	86.70 %

SOURCE: Federal Bureau of the Census.

According to figures provided by the U.S. Department of Commerce, Bureau of the Census, as of 2010, the City of Cambridge had a population of 105,162. This figure represents a 3.8 percent increase from the 2000 population. The following table represents population figures for selected years.

POPULATION AND RATES OF CHANGE

Year	Population	Rate of Change
2015 (est.)	110,402	5.0%
2010	105,162	3.8
2000	101,355	5.8
1990	95,802	0.5
1980	95,322	(5.0)

SOURCE: Federal Bureau of the Census.

Education

The City of Cambridge public school enrollment totals 6,771 for the 2015-16 school year. It is projected that the figures will show increases from 2017-2020. In addition to the public school system, as of January 2016, there are approximately 1,252 Cambridge residents attending private and parochial schools throughout the Greater Boston area. In addition there are 446 students attending the three charter schools located in Cambridge, 5 students attending out of district public schools, and approximately 48 students being home-schooled.

PUBLIC SCHOOL ENROLLMENT PROJECTIONS SCHOOL YEARS 2016-2020 – YEARS BEGINNING OCTOBER 1,

	Actual	Projected			
	2016	2017	2018	2019	2020
Elementary	3,623	3,722	3,841	3,883	3,934
Upper	1,120	1,118	1,099	1,142	1,152
Secondary	1,864	1,915	1,898	1,875	1,886
Tuitioned-out	164	171	171	171	171
Totals	6,771	6,926	7,009	7,071	7,143

SOURCE: Cambridge School Department.

PUBLIC SCHOOL ENROLLMENT HISTORY YEARS BEGINNING OCTOBER 1,

Fiscal Year	K-5	6-8 (1)	K-8	9-12	Tuitioned-out	Total	Percentage Change
2017	3,616	1,120	4,736	1,954	271	6,961	2.81%
2016	3,623	1,120	4,743	1,864	164	6,771	1.39
2015	3,590	1,113	4,703	1,834	141	6,678	2.45
2014	3,523	1,097	4,620	1,739	159	6,518	1.96
2013	3,472	1,066	4,538	1,684	171	6,393	2.72

SOURCE: Cambridge School Department.

- (1) In fiscal 2013, the Cambridge Public School introduced four (4) Upper Schools for grades 6 through 8, as part of its Innovation Agenda.

Higher Education

The major institutions of higher education located in the City are Harvard University and the Massachusetts Institute of Technology (M.I.T.).

Harvard University, the nation's oldest institution of higher learning, was established by the Great and General Court of the Massachusetts Bay Colony in 1636, just 16 years after the Pilgrims landed at Plymouth Rock. Harvard has grown from a school of 12 students and a single master to a university with an enrollment of approximately 17,491 degree candidates in 2014-15, the most recent year for which figures are available.

Harvard University is located primarily in Harvard Square. The various schools and colleges include facilities of Harvard College (the undergraduate portion of the University) as well as the Graduate School of Arts and Sciences, The Radcliffe Institute, the Graduate School of Education, Harvard Kennedy School, the Harvard Law School, the Harvard Divinity School, the Graduate School of Design, the Widener Library and the Loeb Drama Center (home of the American Repertory Theater).

Additional facilities include many of Harvard's famous museums, including the Fogg Museum, The Busch Reisinger Museum, and the Sackler Museum, all of which are incorporated in the Harvard Art Museums complex. Other museums include the Museum of Comparative Zoology, the Peabody Museum, and the Botanical Museum. In addition to serving as teaching and research facilities, these museums are open to the public. Public exhibitions also are conducted at the Harvard College Observatory and the Harvard Smithsonian Observatory.

While M.I.T. began its life as a land-grant university across the Charles River, in Boston, the Institute moved to Cambridge in 1916.

The facilities of the undergraduate and graduate schools for M.I.T., with an enrollment of over 11,036 degree candidates, are located in the Kendall Square area of the City. These include the Graduate School for Architecture and Planning, the Sloan School of Management, the School of Science, the School of Humanities and Social Science, and the School of Engineering.

Additional M.I.T. facilities include the Interdenominational Chapel, Kresge Auditorium, the Hayden Art Gallery, the Margaret Hutchinson Compton Gallery, the Hart Nautical Galleries, the Albert and Vera List Visual Arts Center, and the M.I.T. Museum and Historical Collections, as well as the famous laboratory of Professor Harold Edgerton for Stroboscopic Light Display and Photographs.

The Cambridge Public Health Commission

In June, 1996, the Massachusetts legislature enacted special legislation submitted by the City of Cambridge which created the Cambridge Public Health Commission (doing business as the Cambridge Health Alliance). Under the special legislation, the City's Department of Health and Hospitals, which included the Cambridge Hospital and the Department of Public Health, was transferred to the Commission. The primary objective of the legislation was to give the Commission the flexibility to respond to the major changes in the health care industry resulting from the consolidation and mergers of health care providers. The legislation established the Commission as a public instrumentality governed by a board of nineteen members who are appointed by the City Manager. The affairs of the Commission are administered by a chief executive officer who is appointed by the Commission board.

In accordance with the special legislation, on July 1, 1996, all employees, assets and liabilities of the former City Department of Health and Hospitals were transferred from the City to the Commission, with the exception of existing pension and general obligation debt liabilities. The operation of the Department's real property was transitioned from the City to the Commission via a fifty year lease agreement.

Consistent with its general purpose to create a healthcare organization with the flexibility to respond to changes in healthcare, the special legislation allows the Commission to affiliate with or acquire other area health care providers. In particular, it expressly authorized the Commission to acquire Somerville Hospital and its neighborhood health centers, which acquisition occurred July 1, 1996. In July, 2001, the Commission acquired Whidden Memorial Hospital in Everett. The Commission also operates health centers in Malden, Everett, and Revere and will evaluate other affiliation opportunities as they arise. The Commission operates its three hospital campuses and its network of primary care and specialty health center sites under a single hospital license issued by the Massachusetts Department of Public Health.

The Commission completed a \$60 million renovation and expansion of the Cambridge Hospital in 2001. The project included the construction of a three story 70,000 square foot ambulatory care center, a 200 space underground parking facility, and major renovations of existing facilities. The ambulatory care center was constructed to meet

substantial existing and projected demand for outpatient services in the Commission's service area. Financing for the project consisted of \$30 million in City general obligation bonds (issued in February, 1998), and a \$30 million equity contribution by the Commission. The City refunded \$13.5 million of these bonds in 2007 with proceeds from general obligation bonds issued in March 2007. While the Bonds issued for the project were issued by the City and will remain on the City's financial statements, in practice debt service is being paid by the Commission.

As provided in the special legislation, the City and the Commission have entered into an agreement for the Commission to serve as the City's Public Health Department. The compensation to be paid by the City and the services to be provided by the Commission are outlined in a contract originally entered into in 1997. Effective July 1, 2010, the City and the Commission extended this contract for an additional seven years until June 30, 2017 through an amendment providing for modest increases over that period. The City anticipates that the contract will be further extended until June 30, 2024, through another amendment providing for modest increases.

The Commission reported a net income of \$1.9 million in FY16 compared to a net income of \$28.9 million for FY15. The \$27 million decrease is attributed to the sale of Network Health Operations of \$20 million in FY16 and prior year settlements.

During FY15 and FY16, the Commission expanded primary care services in several under-served communities within its service area. This expansion will improve access to care and will contribute to CHA's strategic goal of improving financial performance. The Commission is also working to expand in retail pharmacy and elder services. Two additional retail pharmacies are expected to open in FY17, one in Cambridge and one in Malden. The Elder Services Plan Program will also be expanding to Malden in FY17.

PROPERTY TAXATION

Tax Levy Computation

The principal tax of Massachusetts cities and towns is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from funds on hand. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see *"Tax Limitations"* below.

The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years.

Although an allowance is made in the tax levy for abatements (see *"Abatements and Overlay"* below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see *"Taxation to Meet Deficits"* below).

The table below illustrates the manner in which the tax levy was determined for each of the following fiscal years.

TAX LEVY COMPUTATION

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017
Total Appropriations(1)	\$ 541,045,251	\$ 561,237,899	\$ 582,490,712	\$ 591,904,735	\$ 651,184,349
Additions:					
State and County Assessments	21,821,728	21,504,962	21,318,046	21,984,445	22,810,772
Overlay for Current Year	4,447,770	4,544,945	4,604,198	4,377,717	4,388,635
Other Amounts to be Raised	1,034,630	1,033,960	1,493,038	1,264,002	1,123,678
Total Additions	27,304,128	27,083,867	27,415,282	27,626,164	28,323,085
Gross Amount to be Raised	568,349,379	588,321,766	609,905,994	619,530,899	679,507,434
Deductions:					
Local Estimated Receipts	130,630,987	137,469,530	140,256,695	148,711,270	156,492,235
Community Preservation revenues(2)	11,561,804	11,157,935	13,833,864	12,840,596	13,302,331
State Aid(3):					
Current Year	30,980,342	30,601,837	32,100,163	32,626,415	35,987,297
Available Funds(4):					
Free Cash	22,169,462	17,470,000	20,674,853	25,613,430	39,357,645
Other Available Funds	56,059,014	63,077,519	61,594,964	45,308,435	61,693,839
Total Other Revenue	251,401,609	259,776,821	268,460,539	265,100,146	306,833,347
Net Amount to be Raised (Tax Levy)	\$316,947,770	\$328,544,945	\$341,445,455	\$354,430,753	\$372,674,087

- (1) Includes additional appropriations from taxation voted subsequent to adoption of the annual budget but prior to setting of the tax rate.
- (2) Includes appropriations of fund balance to fund continuing appropriations of prior years. See "Community Preservation Fund Major Revenues" herein.
- (3) Estimated by various state agencies and required by law to use in setting of the tax rate. Actual state aid payments may vary upward or downward from said estimates, and the State may withhold payments pending receipt of State and County assessments. See "CITY FINANCES—Revenues—State Aid". Transfers from other available funds, including "Free Cash" (see "CITY FINANCES") generally made as an offset to a particular appropriation item.
- (4) Includes overlay surplus reserve fund for each year and transfers from the water and sewer accounts to cover indirect costs incurred in the general fund.

Assessed Valuations and Tax Levies

Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation; the effective rate for open space must be at least 75 per cent of the effective rate for residential real property; and the share of commercial, industrial and personal property must not exceed 175 percent of their share of the total valuation. A city or town may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land is valued for this purpose at five percent of fair cash value but not less than ten dollars per acre.

The following table sets forth the trend in the City's assessed valuations, tax rates, tax levies by property types.

Fiscal Year	Real Estate Valuation	Personal Property Valuation	Total Assessed Valuation	Tax Rate Per \$1,000 Valuation		
				Residential Property	Commercial, Industrial, Personal Property	Gross Levy
2017	\$ 38,243,116,918	\$ 1,386,831,270	\$ 39,629,948,188	\$ 6.49	\$ 16.12	\$ 372,674,087
2016	33,457,786,730	1,222,273,950	34,680,060,680	6.99	17.71	354,430,753
2015	29,053,317,721	1,089,862,800	30,143,180,521	7.82	19.29	341,445,455
2014	26,081,462,558	1,080,186,230	27,161,648,788	8.38	20.44	328,544,945
2013	24,143,725,561	1,070,246,940	25,213,972,501	8.66	21.50	316,947,770

Classification by Property

The following is a breakdown of the City's fiscal 2017, 2016 and 2015 real estate valuation by type of property.

Property Type	2017		2016		2015	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Residential	\$24,497,668,162	61.8 %	\$21,583,664,356	62.2 %	\$18,562,023,898	61.6 %
Commercial	7,998,123,445	20.2	7,187,358,349	20.7	6,577,555,346	21.8
Industrial	5,747,325,311	14.5	4,686,764,025	13.5	3,913,738,477	13.0
Personal	1,386,831,270	3.5	1,222,273,950	3.5	1,089,862,800	3.6
Total Assessed Value	<u>\$39,629,948,188</u>	<u>100.0 %</u>	<u>\$34,680,060,680</u>	<u>100.0 %</u>	<u>\$30,143,180,521</u>	<u>100.0 %</u>

Largest Taxpayers

The following table sets forth the City's 10 largest taxpayers of real estate and personal property taxes and the assessed value of property owned by each such taxpayer. The aggregate assessed value of the 10 largest taxpayers represents 32.87 percent of the City's total assessable base for fiscal 2017. All taxpayers listed are current in their payments.

TEN LARGEST TAXPAYERS Fiscal Year 2017 (1)

Property Owner	Nature of Business	Assessed Valuation	Real Property Taxes	% of Total Tax Levy
Massachusetts Institute of Technology (2)	Education/Real Estate Development	\$ 3,185,602,400	\$ 49,047,637	13.16 %
Biomed Realty Trust	Commercial	1,273,332,600	20,414,275	5.48
Alexandria Real Estate	Commercial	838,434,200	13,486,845	3.62
Boston Properties	Commercial	759,074,000	11,987,435	3.22
President & Fellows of Harvard College (2)	Education	534,694,100	5,568,010	1.49
MBA-Rogers Street, LLC	Commercial	382,231,100	6,161,565	1.65
Equity Partners	Commercial	353,562,800	2,475,169	0.66
PREEF American Reit II Corp	Commercial	288,738,300	4,654,461	1.25
Novartis Pharmaceuticals	Commercial	285,533,600	4,602,802	1.24
New England Development	Commercial	254,311,800	4,099,506	1.10
Totals		<u>\$ 8,155,514,900</u>	<u>\$ 122,497,706</u>	<u>32.87 %</u>

SOURCE: City of Cambridge Department of Finance.

(1) As of January 25, 2017.

(2) Does not include Payments in Lieu of Taxes.

State Equalized Valuation

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the fair cash value of the taxable property in each municipality as of January 1 of even numbered years. This is known as the "equalized value".

The following table sets forth the trend in State equalized valuations of the City.

Year	State Equalized Valuation	% Increase
2016	\$39,570,828,700	33.08 %
2014	29,733,817,500	11.61
2012	26,640,125,400	(5.40)
2010	28,162,029,300	7.80
2008	26,124,313,400	6.50

SOURCE: State Department of Revenue.

Abatements and Overlay

A city or town is authorized to increase each tax levy by an amount approved by the State Commissioner of Revenue as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy.

Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue. But uncollected real property taxes are ordinarily not written off until they become municipal "tax titles" by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of the tax and charging surplus.

The table below sets forth the amount of the overlay reserve for the following fiscal years and actual abatements granted through June 30, 2016 against each levy.

Fiscal Year	Net Tax Levy(1)	Overlay Reserve		Abatements Granted Through June 30, 2016
		Dollar Amount	As a % of Net Levy	
2016	\$ 350,053,036	\$ 4,377,717	1.25 %	\$ 1,008,308
2015	336,841,257	4,604,198	1.37	1,005,232
2014	324,000,000	4,544,945	1.40	1,428,260
2013	312,500,000	4,447,770	1.42	2,083,550
2012	294,699,999	4,390,639	1.49	1,847,654

(1) Tax levy prior to addition of overlay reserve.

Tax Collections

The taxes for each fiscal year are due in two installments on November 1 subject to deferral if tax bills are sent out late and May 1. (A city or town may accept a statute providing for quarterly tax payments. The City has chosen not to accept this statute.) Interest accrues on delinquent taxes at the rate of 14 percent per annum.

The table below compares the City's net tax collections with its net (gross tax levy less overlay reserve for abatements) tax levies for the following fiscal years.

Fiscal Year	Gross Tax Levy	Overlay Reserve for Abatements	Net Tax Levy	Collections During Fiscal Year Payable(1)(2)		Collections as of June 30, 2016	
				Dollar Amount	% of Net Levy	Dollar Amount	% of Net Levy
2016	\$354,430,753	\$4,377,717	\$350,053,036	\$350,250,304	100.06 %	\$350,250,304	100.06 %
2015	341,445,455	4,604,198	336,841,257	337,729,954	100.26	337,729,954	100.26
2014	328,544,945	4,544,945	324,000,000	324,173,637	100.05	327,220,844	100.99
2013	316,947,770	4,447,770	312,500,000	313,575,938	100.34	315,096,004	100.83
2012	299,090,638	4,390,639	294,699,999	294,569,421	99.96	296,210,823	100.51

(1) Net after deduction of overlay reserve for abatements.

(2) Actual dollar collections, net of refunds. Does not include abatements, proceeds of tax titles or tax possessions attributable to each levy or other non-cash credits.

Tax Titles and Possessions

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for nonpayment of taxes thereon. In either case the property owner can redeem the property by paying the unpaid taxes, with interest (at a rate of 16%) and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments) it can be foreclosed by petition to the land court.

Upon such foreclosure, a tax title purchased or taken by the municipality becomes a “tax possession” and may be held and disposed of like any land held for municipal purposes. Uncollectible real property taxes are ordinarily not written off until they become municipal tax titles (either by purchase at the public sale or by taking), at which time the tax is written off in full by reserving the amount of tax and charging surplus.

The table below sets forth the balances of tax titles and possessions at the end of the following fiscal years.

<u>Fiscal Year</u>	<u>Total Tax Titles and Possessions</u>
2016	\$3,228,768
2015	3,473,779
2014	3,322,878
2013	3,578,291
2012	3,216,887

Taxation to Meet Deficits

As noted elsewhere (see “*Abatements and Overlay*” above) overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e. those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

Cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as “free cash” deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Tax Limitations

Chapter 59, Section 21C of the General Laws, also known as Proposition 2 ½, imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than

2½ percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation.

This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the "growth" limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit "to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year".

The statute further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations.

It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures or for the city or town's apportioned share for certain capital outlay expenditures by a regional governmental unit. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option". Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district's governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions. *The City of Cambridge has not voted to exempt the debt service on the Bonds from the limitations.*

Tax Levies and Levy Limits (1)

	For Fiscal Year				
	2017	2016	2015	2014	2013
Primary Levy Limit (2)	\$ 990,748,705	\$ 867,001,517	\$ 753,579,513	\$ 679,041,220	\$ 630,349,313
Prior Fiscal Year Levy Limit	509,475,549	475,410,995	446,045,872	421,051,728	401,732,949
Prior Fiscal Year Growth	456,741	834,074	244,639	455,157	244,216
2.5% Levy Growth	12,748,232	11,906,127	11,157,263	10,537,672	10,049,429
New Growth (3)	18,282,278	21,321,353	17,963,221	14,001,315	9,025,134
Overrides	-	-	-	-	-
Growth Levy Limit	540,962,800	509,472,549	475,410,995	446,045,872	421,051,728
Debt Exclusions	-	-	-	-	-
Capital Expenditure Exclusions	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Tax Levy Limit	540,962,800	509,472,549	475,410,995	446,045,872	421,051,728
Tax Levy	372,674,087	354,430,753	341,445,455	328,544,945	316,947,770
Unused Levy Capacity (4)	168,288,713	155,041,796	133,965,540	117,500,927	104,103,958
Unused Primary Levy Capacity (5)	\$ 449,785,905	\$ 357,528,968	\$ 278,168,518	\$ 232,995,348	\$ 255,942,919

(1) Source: Massachusetts Department of Revenue.

(2) 2.5% of assessed valuation.

(3) Allowed increase for new valuations (or required reduction) - certified by the Department of Revenue.

(4) Tax Levy Limit less Tax Levy.

(5) Primary Levy Limit less Growth Levy Limit.

Community Preservation Act

The Massachusetts Community Preservation Act (the "CPA") permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see "*Tax Limitations*" under "PROPERTY TAXATION" above). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge on the real property tax levy. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge based on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on real property taxes and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

The City has accepted the Act and set the rate at 3%. The City implemented the program in fiscal 2002 and will utilize revenues to pay for a variety of qualifying projects.

Community Preservation Fund Major Revenues

<u>Year</u>	<u>Property Tax</u>	<u>State Contribution</u>	<u>All Other</u>	<u>Total</u>
2016	\$ 9,507,258	\$ 2,732,645	\$ 42,763	\$ 12,282,666
2015	9,066,619	2,749,255	20,023	11,835,897
2014	8,581,278	4,347,169	16,482	12,944,929
2013	8,205,917	2,110,506	27,166	10,343,589
2012	7,728,592	1,984,866	36,064	9,749,522

As of December 31, 2016 the CPA Fund had a balance available for appropriations of \$1,091,256.

CITY FINANCES

Budget and Appropriation Process

In a city in Massachusetts, within 170 days after the annual organization of the city government (which is ordinarily in early January), the mayor or city manager is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The city council may make appropriations for the recommended purposes and may reduce or reject any item. Without a recommendation of the mayor or manager, the council may not make any appropriation for a purpose not included in the proposed budget, except by a two-thirds vote in the case of a failure of the mayor or manager to recommend an appropriation for such a purpose within 7 days after a request from the council. The council may not increase any item without the recommendation of the mayor (except as provided by legislation, subject to local acceptance, under which the school budget or regional school district assessment can be increased upon recommendation of the school committee or regional district school committee and by two-thirds vote of the council, provided that such increase does not cause the total annual budget to exceed the property tax limitations). If the council fails to act on any item of the proposed budget within 45 days, that item takes effect.

City department heads are generally required to submit their budget requests to the mayor or city manager between November 1 and December 1. This does not apply to the school department, which must submit its requests in time for the mayor or manager to include them in his submission to the council.

If the mayor or manager does not make a timely budget submission, provision is made for preparation of a budget by the council. Provision is also made for supplementary appropriations upon recommendation of the mayor or manager.

Under certain circumstances and subject to certain limits and requirements, the city council of a city, upon the recommendation of the mayor, may transfer amounts appropriated for the use of one department (except for a municipal light department or a school department) to another appropriation for the same department or for the use of any other department.

Water and sewer department expenditures are generally included in the budgets adopted by city councils but electric and gas department funds may be appropriated by the municipal light boards. Under certain legislation any city which accepts the legislation may provide that the appropriation for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department. It is assumed that this general provision does not alter the pre-existing power of an electric or gas department to appropriate its own receipts.

The school budget is limited to the total amount appropriated by the city council, but the school committee retains full power to allocate the funds appropriated. State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors. (See footnotes to "Tax Levy Computation" above and "State Aid" below.)

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for, and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "PROPERTY TAXATION" above.)

The following table shows a comparison of the budgeted operating revenues and expenditures of the City for fiscal years 2013 through 2017. Health insurance, retirement and certain other employee benefit costs are included in departmental budgets. Debt service on school projects is included in the School budget. Debt service on the Cambridge Hospital project is included in the Debt Service budget.

The fiscal year 2017 budget of \$576,066,645 includes all appropriations made to operating budgets prior to the calculation of the fiscal year 2017 tax rate. This figure includes overlay deficits from the prior year as well as the overlay reserve and offsets for the current fiscal year. The fiscal year 2017 operating budget represents an increase of \$25,037,005, or 4.3%, over the fiscal year 2016 budget. Increases in the fiscal year 2017 budget include salary adjustments for employees which are spread over most City departments, debt service costs, health and retirement costs, Massachusetts Water Resources Authority and State (Cherry Sheet) Assessments, energy costs, and additional school expenditures of \$8,853,560.

The largest source of funding for the operating budget is property taxes. This revenue increased from a fiscal year 2016 level of \$354,430,753 (including an allocation of \$5,478,000 to the Public Investment Fund) to a fiscal year level of \$372,674,087 (including \$5,680,000 allocated to the Public Investment Fund). An additional \$16,890,570 from other current revenue sources has been combined with bond authorizations of \$66,972,500 for a total capital budget of \$83,863,070.

BUDGET COMPARISON (1)
(\$ in 000s)

	2013	2014	2015	2016	2017
Revenues:					
Real & Personal Property Taxes (1)	\$316,947.8	\$328,544.9	\$341,445.5	\$354,431	\$372,674
Local Estimated Receipts:					
Motor Vehicle Excise	6,000.0	6,100.0	6,100.0	6,400.0	6,750.0
Water	14,599.7	14,655.3	14,324.2	14,328.2	14,337.0
Sewer	38,090.9	39,620.7	40,996.2	44,950.5	47,669.6
Interest Income	500.0	500.0	500.0	500.0	500.0
Other Local Receipts	54,742.6	57,410.5	58,503.2	58,503.2	58,503.2
Subtotal	113,933.2	118,286.5	120,423.6	124,681.9	127,759.8
State Aid	30,980.3	30,601.8	32,100.2	32,626.4	35,987.3
Other Available Funds	33,102.3	35,859.5	35,018.9	39,290.5	39,645.4
Total Revenues	<u>\$494,963.5</u>	<u>\$513,292.8</u>	<u>\$528,988.2</u>	<u>\$551,029.6</u>	<u>\$576,066.5</u>
Expenditures:					
Deficits to be Raised:					
Overlay	\$36.3	\$47.0	\$0.0	\$0.0	\$0.0
Other	129.1	136.5	169.2	131.6	131.3
Subtotal Deficits	<u>165.3</u>	<u>183.5</u>	<u>169.2</u>	<u>131.6</u>	<u>131.3</u>
Overlay Reserve	4,447.8	4,544.9	4,604.2	4,377.7	4,388.6
Fixed Expenses:					
State & County Assessments	12,930.0	12,516.9	12,270.5	12,791.2	12,791.2
Mass. Water Resources Authority	21,006.1	21,346.8	22,189.7	22,157.8	23,898.9
Debt Service (2)	50,350.5	53,633.7	50,446.0	54,664.5	58,096.3
Retirement System (3)	23,723.2	24,188.4	22,902.2	22,665.6	24,229.0
MBTA	8,891.7	8,988.1	9,066.2	9,193.3	9,193.3
Cambridge Public Health Commission	6,500.0	6,500.0	6,750.0	7,000.0	7,000.0
Other Fixed Costs (4)	3,356.8	3,537.0	3,634.5	3,634.5	3,634.5
Subtotal Fixed	<u>\$126,758.3</u>	<u>\$130,710.9</u>	<u>\$127,259.1</u>	<u>\$132,106.9</u>	<u>\$138,843.1</u>
Variable Expense (Budget):					
Schools	145,062.7	151,064.4	156,669.4	163,940.4	172,794.0
Police	45,643.1	47,186.0	49,260.6	50,646.2	51,145.8
Fire	40,111.1	43,350.3	44,661.5	44,990.9	46,094.0
Public Works:					
Water	14,144.1	14,238.7	13,964.3	13,964.1	13,969.2
Other (5)	31,945.3	32,859.7	33,364.5	35,090.1	37,181.7
General Government	22,311.7	23,501.1	25,246.3	26,831.3	28,603.2
Other Variable	64,374.1	65,653.2	73,789.1	78,950.5	82,915.8
Subtotal Variable	<u>\$363,592.1</u>	<u>\$377,853.4</u>	<u>\$396,955.7</u>	<u>\$414,413.5</u>	<u>\$432,703.6</u>
Total Expenditures	<u>\$494,963.5</u>	<u>\$513,292.8</u>	<u>\$528,988.2</u>	<u>\$551,029.6</u>	<u>\$576,066.6</u>

(1) Before tax abatements.

(2) School costs for this category are included in the School Budget and Water costs are included in the Water Budget.

(3) Contributory Retirement System costs are included in departmental budgets.

(4) Most of the components of the Other Fixed Costs category, including health insurance costs, are included in the departmental budgets.

(5) The Sewer and Highway Divisions now included in the "Other" category. Source: City Department of Finance.

Revenues

All of the amounts below were extracted from the audited financial statements of the City, except for the MWRA assessments.

Property Taxes: Property taxes are the major source of revenue for the City. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see "PROPERTY TAXATION--Property Tax Limitation" above. The trend in the (net) property tax levy is shown in the table below.

Federal Aid: Although the major source of federal aid to the City, Community Development Block Grant funds, has been reduced in recent years, programs funded through this source have not been affected. Current revenues have been used, in most cases, to fund programs previously supported by Block Grant funds. In addition, bond proceeds have been utilized to offset reductions in funding of capital projects. The table below shows the trend in the City's federal aid over the last five fiscal years.

Fiscal Year	Community Development Block Grant	Other	Total From Federal Government
2016	\$2,781,222	\$12,094,278	\$14,875,500
2015	2,928,383	13,139,117	16,067,500
2014	3,473,538	12,645,202	16,118,740
2013	2,817,200	11,445,290	14,262,490
2012	2,256,340	14,321,430	16,577,770

On January 25, 2017, President Trump issued an Executive Order (the "Order") intended to enforce the U.S. immigration laws. The Order includes a provision directing the Attorney General and the Secretary of Homeland Security to ensure that state and local jurisdictions that willfully refuse to comply with federal law concerning the provision of information on individuals' immigration status will not be eligible to receive federal grants except as deemed necessary for law enforcement purposes.

The City Council adopted a resolution in April 1985 declaring Cambridge to be a sanctuary city and the City Manager has recently reaffirmed this status, which could possibly subject the City to the loss of federal funds following implementation of the Order. The validity of the Order is currently being challenged in court by various communities, including two cities in Massachusetts.

The City currently receives approximately \$16 million in annual federal grants. The City cannot predict how the federal government will implement the Order, what impact, if any, enforcement of the Order may have on the amount or timing of receipt of federal funds or the City's financial condition or what actions, if any the City might take in response to the Order or any action under it.

State Aid: The City's state aid entitlement is based upon a number of different formulas, and while said formulas might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid but actual payments may vary from the estimate. The table below shows the trend in the City's state aid over the last five fiscal years.

Fiscal Year	School Operations	Other	Total From State
2016	\$10,874,938	\$18,906,142	\$29,781,080
2015	12,061,540	19,942,399	32,003,939
2014	10,806,835	19,258,464	30,065,299
2013	10,261,156	18,842,532	29,103,688
2012	10,648,835	18,951,578	29,600,413

Motor Vehicle Excise: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a rate of \$25 per \$1,000 of valuation. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 per cent per annum. Provision is also made for non-renewal of registration and operating license by the registrar of motor vehicles. The trend in motor vehicle excise tax receipts is shown in the table below.

Fiscal Year	Receipts (1)
2016	\$7,452,353
2015	7,200,225
2014	7,230,474
2013	6,833,482
2012	6,238,835

(1) Net after refunds, includes receipts from prior fiscal years.

Water and Sewer: The City's water operations are accounted in an enterprise fund. The City's sewer operations are accounted in the General Fund. The City's policy is to set water and sewer rates to recover fully all costs of operations, including overhead and debt service.

The City uses a block rate system to encourage water conservation and to provide a more equitable billing system. The block rates below commenced with the water/sewer usage as of April 1, 2016.

Block	Quarterly Consumption (1)	Fiscal 2017 Water Rate	Fiscal 2017 Sewer Rate
1	1 to 10 CcF	\$3.02	\$9.50
2	11 to 100 CcF	3.24	10.05
3	101 to 500 CcF	3.44	10.79
4	501 to 2,500 CcF	3.65	11.62
5	Over 2,501 CcF	3.96	12.35

(1) Measured in centum cubic feet, or hundred cubic feet.

Room Occupancy Tax: In 1985 the State legislature made available a room occupancy excise tax as an additional source of revenue for municipalities (G.L. Chapter 64G, s.3A), effective July 1, 1986. Under this tax, local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed four percent (4%) of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located in quarterly distributions. Effective October 1, 2009, the City levies the full 6% room occupancy tax as permitted under the law. The trend in room occupancy tax receipts is shown below.

Fiscal Year	Receipts
2016	\$14,616,844
2015	13,657,417
2014	12,413,943
2013	11,989,110
2012	11,219,831

Local Meals Excise Tax: Effective January 1, 2010, the City enacted a local meals excise tax on sales of restaurant meals. The tax is a three-fourths percent tax on the gross receipts of a vendor from the sale of restaurant meals. The vendor pays the tax to the State Commissioner of Revenue, which in turn, pays the tax to the municipality in which the meal was sold. The trend in local meals excise tax receipts is shown below.

Fiscal Year	Receipts
2016	\$4,595,850
2015	4,203,784
2014	4,111,239
2013	3,920,538
2012	3,734,594

Investment of City Funds

Investments of funds of cities and towns, except for trust funds, are generally restricted by Massachusetts General Laws Chapter 44, section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposits of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth. The State Treasurer is the sole trustee, and the funds are managed under contract by an investment firm under the supervision of the State Treasurer's office. According to the State Treasurer the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with section 54 of Chapter 44, which permits a broader range of investments than section 55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by sections 54 and 55 do not apply to city and town retirement systems.

Breakdown of such investments may be obtained from the City Treasurer.

Pension funds are under the jurisdiction of the Cambridge Contributory Retirement System. Investments and the retirement system are discussed in Appendix A.

Annual Audits

Audits are performed annually by KPMG LLP, Boston, Massachusetts and incorporated into the City's Comprehensive Annual Financial Reports. See Appendix A for the City's fiscal 2016 audited financial statements. Copies of previous fiscal year's audits are available upon request from the City.

The attached report speaks only as of its date, and only to the matters expressly set forth therein. *The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A.* Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Basis of Accounting

See Appendix A.

Financial Statements

Set forth on the following pages are Governmental Fund Balance Sheets for fiscal 2016, 2015, and 2014, and Statements of Revenues, Expenditures and Changes in Fund Balances for fiscal years 2016 through 2012. All the financial statements are extracted from audited financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS
Balance Sheet - Governmental Funds
June 30, 2016 (1)

	General	Capital Fund	Affordable Housing Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Investments	\$ 333,792,999	\$ 76,115,855	\$ 28,808,019	\$ 36,964,352	\$ 475,681,225
Cash and Investments Held by Trustees	-	-	600,000	-	600,000
Receivable, net:					
Property Taxes	5,495,339	-	-	-	5,495,339
Motor Vehicle Excise	1,092,018	-	-	-	1,092,018
Tax Title and Possessions	2,905,891	-	-	-	2,905,891
Intergovernmental	-	18,872,803	-	2,756,393	21,629,196
Departmental and Other	18,124,911	-	2,550,638	313,372	20,988,921
Total Receivables	27,618,159	18,872,803	2,550,638	3,069,765	52,111,365
Other Assets	1,616,290	-	-	-	1,616,290
Due from Other Funds	-	569,969	-	-	569,969
Due from Component Unit	2,995,000	-	-	-	2,995,000
Total Assets	<u>\$ 366,022,448</u>	<u>\$ 95,558,627</u>	<u>\$ 31,958,657</u>	<u>\$ 40,034,117</u>	<u>\$ 533,573,849</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Warrants and Accounts Payable	\$ 8,156,380	\$ 13,040,672	\$ 2,801,186	\$ 1,988,799	\$ 25,987,037
Accrued Liabilities:					
Tax Abatements	2,040,000	-	-	-	2,040,000
Judgments and Claims	7,052,000	-	-	-	7,052,000
Accrued Payroll	15,990,139	24,695	-	198,834	16,213,668
Other	2,435,200	-	-	598,087	3,033,287
Due to Other Funds	32,723	-	-	569,969	602,692
Total Liabilities	<u>35,706,442</u>	<u>13,065,367</u>	<u>2,801,186</u>	<u>3,355,689</u>	<u>54,928,684</u>
Deferred Inflows of Resources:					
Unavailable Revenue	29,371,614	-	-	102,646	29,474,260
Fund Balances:					
Nonspendable	1,536,290	-	-	2,234,567	3,770,857
Restricted	-	82,493,260	600,000	19,374,318	102,467,578
Committed	71,455,514	-	28,557,471	14,966,897	114,979,882
Assigned	12,180,000	-	-	-	12,180,000
Unassigned	215,772,588	-	-	-	215,772,588
Total Fund Balances	<u>300,944,392</u>	<u>82,493,260</u>	<u>29,157,471</u>	<u>36,575,782</u>	<u>449,170,905</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 366,022,448</u>	<u>\$ 95,558,627</u>	<u>\$ 31,958,657</u>	<u>\$ 40,034,117</u>	<u>\$ 533,573,849</u>

(1) Extracted from the audited financial statements of the City.

CITY OF CAMBRIDGE, MASSACHUSETTS
Balance Sheet - Governmental Funds
June 30, 2015 (1)

	General	Capital Fund	Affordable Housing Trust Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Investments	\$ 306,259,261	\$ 81,616,890	\$ 36,323,436	\$ 36,032,598	\$ 460,232,185
Cash and Investments Held by Trustees	-	-	600,000	-	600,000
Receivable, net:					
Property Taxes	4,914,817	-	-	-	4,914,817
Motor Vehicle Excise	950,825	-	-	-	950,825
Tax Title and Possessions	3,473,779	-	-	-	3,473,779
Intergovernmental	-	11,731,435	-	3,123,484	14,854,919
Departmental and Other	14,865,318	-	3,218,746	450,630	18,534,694
Total Receivables	24,204,739	11,731,435	3,218,746	3,574,114	42,729,034
Other Assets	2,157,459	-	-	-	2,157,459
Due from Other Funds	-	569,969	-	-	569,969
Due from Component Unit	4,495,000	-	-	-	4,495,000
Total Assets	<u>\$ 337,116,459</u>	<u>\$ 93,918,294</u>	<u>\$ 40,142,182</u>	<u>\$ 39,606,712</u>	<u>\$ 510,783,647</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Warrants and Accounts Payable	\$ 6,782,946	\$ 15,594,187	\$ 382,537	\$ 1,673,031	\$ 24,432,701
Accrued Liabilities:					
Tax Abatements	2,400,000	-	-	-	2,400,000
Judgments and Claims	6,646,279	-	-	-	6,646,279
Accrued Payroll	15,595,962	16,679	-	147,690	15,760,331
Other	2,826,155	-	-	369,127	3,195,282
Due to Other Funds	32,723	-	-	569,969	602,692
Total Liabilities	<u>34,284,065</u>	<u>15,610,866</u>	<u>382,537</u>	<u>2,759,817</u>	<u>53,037,285</u>
Deferred Inflows of Resources:					
Unavailable Revenue	27,084,605	-	-	85,733	27,170,338
Fund Balances:					
Nonspendable	2,077,459	-	-	2,199,328	4,276,787
Restricted	-	78,307,428	600,000	19,406,832	98,314,260
Committed	70,997,088	-	39,159,645	15,155,002	125,311,735
Unassigned	202,673,242	-	-	-	202,673,242
Total Fund Balances	<u>275,747,789</u>	<u>78,307,428</u>	<u>39,759,645</u>	<u>36,761,162</u>	<u>430,576,024</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 337,116,459</u>	<u>\$ 93,918,294</u>	<u>\$ 40,142,182</u>	<u>\$ 39,606,712</u>	<u>\$ 510,783,647</u>

(1) Extracted from the audited financial statements of the City.

CITY OF CAMBRIDGE, MASSACHUSETTS
Balance Sheet - Governmental Funds
June 30, 2014 (1)

Assets	General	Capital Fund	Affordable Housing Trust Fund	Other Governmental Funds	Total Governmental Funds
Cash and Investments	\$ 260,516,932	\$ 87,219,100	\$ 35,403,927	\$ 37,117,273	\$ 420,257,232
Cash and Investments Held by Trustees	-	-	600,000	-	600,000
Receivable, net:					
Property Taxes	4,307,833	-	-	-	4,307,833
Motor Vehicle Excise	932,467	-	-	-	932,467
Tax Title and Possessions	3,322,878	-	-	-	3,322,878
Intergovernmental	-	4,757,014	-	3,096,827	7,853,841
Departmental and Other	12,453,076	-	2,758,093	493,284	15,704,453
Total Receivables	21,016,254	4,757,014	2,758,093	3,590,111	32,121,472
Other Assets	1,886,542	-	-	-	1,886,542
Due from Other Funds	-	739,969	-	-	739,969
Due from Component Unit	5,995,000	-	-	-	5,995,000
Total Assets	<u>\$ 289,414,728</u>	<u>\$ 92,716,083</u>	<u>\$ 38,762,020</u>	<u>\$ 40,707,384</u>	<u>\$ 461,600,215</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Warrants and Accounts Payable	\$ 7,863,533	\$ 11,003,086	\$ 286,664	\$ 1,058,065	\$ 20,211,348
Accrued Liabilities:					
Tax Abatements	3,600,000	-	-	-	3,600,000
Judgments and Claims	6,476,000	-	-	-	6,476,000
Accrued Payroll	14,473,543	16,508	-	108,493	14,598,544
Other	4,658,546	-	-	44,735	4,703,281
Due to Other Funds	32,723	-	-	739,969	772,692
Total Liabilities	<u>37,104,345</u>	<u>11,019,594</u>	<u>286,664</u>	<u>1,951,262</u>	<u>50,361,865</u>
Deferred Inflows of Resources:					
Unavailable Revenue	24,812,319	-	-	70,651	24,882,970
Fund Balances:					
Nonspendable	1,806,542	-	-	2,170,328	3,976,870
Restricted	-	81,696,489	600,000	20,649,199	102,945,688
Committed	59,468,937	-	37,875,356	15,865,944	113,210,237
Unassigned	166,222,585	-	-	-	166,222,585
Total Fund Balances	<u>227,498,064</u>	<u>81,696,489</u>	<u>38,475,356</u>	<u>38,685,471</u>	<u>386,355,380</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 289,414,728</u>	<u>\$ 92,716,083</u>	<u>\$ 38,762,020</u>	<u>\$ 40,707,384</u>	<u>\$ 461,600,215</u>

(1) Extracted from the audited financial statements of the City.

CITY OF CAMBRIDGE, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
June 30, 2016 (1)

	General	Capital Fund	Affordable Housing Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Real and Personal Property Taxes	\$ 356,247,426	\$ -	\$ -	\$ -	\$ 356,247,426
Excises:					
Hotel Motel Meals	19,212,693	-	-	-	19,212,693
Motor Vehicles	7,452,353	-	-	-	7,452,353
Payments in Lieu of Taxes	9,191,431	-	-	-	9,191,431
Intergovernmental	52,554,348	15,508,261	-	24,526,412	92,589,021
Investment Income	3,274,185	66,692	-	216,762	3,557,639
Sewer Use Charges	48,818,911	-	-	-	48,818,911
Departmental and Other	63,946,843	633,107	1,342,536	32,889,486	98,811,972
Total Revenues	\$ 560,698,190	\$ 16,208,060	\$ 1,342,536	\$ 57,632,660	\$ 635,881,446
Expenditures					
Current:					
General Government	38,656,029	-	-	305,446	38,961,475
Public Safety	116,755,958	-	-	965,588	117,721,546
Community Maintenance and Development	46,667,597	-	21,304,710	4,324,632	72,296,939
Human Resource Development	36,154,723	-	-	7,956,298	44,111,021
Education	183,323,948	-	-	14,155,888	197,479,836
Judgements and Claims	2,714,745	-	-	-	2,714,745
State and District Assessments	52,023,584	-	-	-	52,023,584
Capital Outlays	-	90,386,126	-	-	90,386,126
Debt Service	54,814,116	-	-	-	54,814,116
Total Expenditures	531,110,700	90,386,126	21,304,710	27,707,852	670,509,388
Excess (Deficiency) of Revenues Over Expenditures	29,587,490	(74,178,066)	(19,962,174)	29,924,808	(34,627,942)
Other Financing Sources (Uses)					
Premium on Debt Issuance	3,518,738	-	-	-	3,518,738
Issuance of Debt	-	48,990,000	-	-	48,990,000
Transfers In	20,900,815	29,373,898	9,360,000	1,008,005	60,642,718
Transfers Out	(28,810,440)	-	-	(31,118,193)	(59,928,633)
Total Other Financing (Uses) Sources	(4,390,887)	78,363,898	9,360,000	(30,110,188)	53,222,823
Net Change in Fund Balances	25,196,603	4,185,832	(10,602,174)	(185,380)	18,594,881
Fund Balance - Beginning	275,747,789	78,307,428	39,759,645	36,761,162	430,576,024
Fund Balance - Ending	\$ 300,944,392	\$ 82,493,260	\$ 29,157,471	\$ 36,575,782	449,170,905

(1) Extracted from the audited financial statements of the City.

CITY OF CAMBRIDGE, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
June 30, 2015 (1)

	General	Capital Fund	Affordable Housing Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Real and Personal Property Taxes	\$ 342,853,089	\$ -	\$ -	\$ -	\$ 342,853,089
Excises:					
Hotel Motel Meals	17,861,201	-	-	-	17,861,201
Motor Vehicles	7,200,225	-	-	-	7,200,225
Payments in Lieu of Taxes	8,082,220	-	-	-	8,082,220
Intergovernmental	45,502,677	21,913,519	-	23,282,530	90,698,726
Investment Income	1,523,445	25,941	-	113,152	1,662,538
Sewer Use Charges	47,920,611	-	-	-	47,920,611
Departmental and Other	53,411,564	864,883	3,167,213	32,897,159	90,340,819
Total Revenues	<u>\$ 524,355,032</u>	<u>\$ 22,804,343</u>	<u>\$ 3,167,213</u>	<u>\$ 56,292,841</u>	<u>\$ 606,619,429</u>
Expenditures					
Current:					
General Government	33,317,266	-	-	199,736	33,517,002
Public Safety	117,991,207	-	-	1,202,965	119,194,172
Community Maintenance and Development	46,003,969	-	11,882,924	3,592,895	61,479,788
Human Resource Development	34,301,944	-	-	8,041,055	42,342,999
Education	168,366,479	-	-	13,036,408	181,402,887
Judgements and Claims	121,540	-	-	-	121,540
State and District Assessments	50,184,292	-	-	-	50,184,292
Capital Outlays	-	120,099,925	-	-	120,099,925
Debt Service	51,359,112	-	-	-	51,359,112
Total Expenditures	<u>501,645,809</u>	<u>120,099,925</u>	<u>11,882,924</u>	<u>26,073,059</u>	<u>659,701,717</u>
Excess (Deficiency) of Revenues Over Expenditures	22,709,223	(97,295,582)	(8,715,711)	30,219,782	(53,082,288)
Other Financing Sources (Uses)					
Premium on Debt Issuance	12,114,100	-	-	-	12,114,100
Issuance of Debt	38,105,000	88,596,390	-	-	126,701,390
Transfers In	36,808,100	21,638,121	10,000,000	-	68,446,221
Transfers Out	(19,264,285)	(16,327,990)	-	(32,144,091)	(67,736,366)
Payments to Fiscal Escrow Agent	(42,222,413)	-	-	-	(42,222,413)
Total Other Financing (Uses) Sources	<u>25,540,502</u>	<u>93,906,521</u>	<u>10,000,000</u>	<u>(32,144,091)</u>	<u>97,302,932</u>
Net Change in Fund Balances	48,249,725	(3,389,061)	1,284,289	(1,924,309)	44,220,644
Fund Balance - Beginning	227,498,064	81,696,489	38,475,356	38,685,471	386,355,380
Fund Balance - Ending	<u>\$ 275,747,789</u>	<u>\$ 78,307,428</u>	<u>\$ 39,759,645</u>	<u>\$ 36,761,162</u>	<u>430,576,024</u>

(1) Extracted from the audited financial statements of the City.

CITY OF CAMBRIDGE, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
June 30, 2014 (1)

	General	Capital Fund	Affordable Housing Trust Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Real and Personal Property Taxes	\$ 327,998,703	\$ -	\$ -	\$ -	\$ 327,998,703
Excises:					
Hotel Motel Meals	16,525,182	-	-	-	16,525,182
Motor Vehicles	7,230,474	-	-	-	7,230,474
Payments in Lieu of Taxes	7,759,252	-	-	-	7,759,252
Intergovernmental	58,572,275	21,680,944	-	25,475,845	105,729,064
Investment Income	1,621,623	25,397	630,735	89,765	2,367,520
Sewer Use Charges	41,690,417	-	-	-	41,690,417
Departmental and Other	47,891,799	13,468,364	526,391	32,614,124	94,500,678
Total Revenues	<u>\$ 509,289,725</u>	<u>\$ 35,174,705</u>	<u>\$ 1,157,126</u>	<u>\$ 58,179,734</u>	<u>\$ 603,801,290</u>
Expenditures					
Current:					
General Government	33,234,730	-	-	261,828	33,496,558
Public Safety	112,495,641	-	-	1,472,578	113,968,219
Community Maintenance and Development	40,570,532	-	6,626,130	2,919,972	50,116,634
Human Resource Development	32,860,663	-	-	8,111,424	40,972,087
Education	176,930,223	-	-	12,318,772	189,248,995
Judgements and Claims	52,394	-	-	-	52,394
State and District Assessments	47,682,872	-	-	-	47,682,872
Capital Outlays	-	82,643,958	-	-	82,643,958
Debt Service	49,668,909	-	-	-	49,668,909
Total Expenditures	<u>493,495,964</u>	<u>82,643,958</u>	<u>6,626,130</u>	<u>25,084,574</u>	<u>607,850,626</u>
Excess (Deficiency) of Revenues Over Expenditures	15,793,761	(47,469,253)	(5,469,004)	33,095,160	(4,049,336)
Other Financing Sources (Uses)					
Premium on Debt Issuance	4,102,740	-	-	-	4,102,740
Issuance of Debt	-	34,900,000	-	-	34,900,000
Transfers In	20,292,430	10,863,364	8,240,000	-	39,395,794
Transfers Out	(8,672,225)	-	-	(30,017,994)	(38,690,219)
Total Other Financing (Uses) Sources	<u>15,722,945</u>	<u>45,763,364</u>	<u>8,240,000</u>	<u>(30,017,994)</u>	<u>39,708,315</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	31,516,706	(1,705,889)	2,770,996	3,077,166	35,658,979
Fund Balance - Beginning	195,981,358	83,402,378	35,704,360	35,608,305	350,696,401
Fund Balance - Ending	<u>\$ 227,498,064</u>	<u>\$ 81,696,489</u>	<u>\$ 38,475,356</u>	<u>\$ 38,685,471</u>	<u>386,355,380</u>

(1) Extracted from the audited financial statements of the City.

CITY OF CAMBRIDGE, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
June 30, 2013 (1)

Revenues	General	Capital Fund	Affordable Housing Trust Fund	Other Governmental Funds	Total Governmental Funds
Real and Personal Property Taxes	\$ 315,776,734	\$ -	\$ -	\$ -	\$ 315,776,734
Excises:					
Hotel Motel Meals	15,909,648	-	-	-	15,909,648
Motor Vehicles	6,833,482	-	-	-	6,833,482
Payments in Lieu of Taxes	7,553,728	-	-	-	7,553,728
Intergovernmental	31,035,786	23,794,638	-	23,168,113	77,998,537
Investment Income	616,276	18,064	376,453	90,721	1,101,514
Sewer Use Charges	40,019,569	-	-	-	40,019,569
Departmental and Other	46,475,307	5,713,649	1,139,570	32,223,902	85,552,428
Total Revenues	\$ 464,220,530	\$ 29,526,351	\$ 1,516,023	\$ 55,482,736	\$ 550,745,640
Expenditures					
Current:					
General Government	34,893,797	-	-	173,654	35,067,451
Public Safety	106,985,572	-	-	1,289,000	108,274,572
Community Maintenance and Development	39,174,605	-	5,444,591	3,587,802	48,206,998
Human Resource Development	32,143,378	-	-	7,740,839	39,884,217
Education	143,787,568	-	-	14,273,132	158,060,700
Judgements and Claims	75,633	-	-	-	75,633
State and District Assessments	46,660,306	-	-	-	46,660,306
Capital Outlays	-	85,829,182	-	-	85,829,182
Debt Service	46,304,962	-	-	-	46,304,962
Total Expenditures	450,025,821	85,829,182	5,444,591	27,064,427	568,364,021
Excess (Deficiency) of Revenues Over Expenditures	14,194,709	(56,302,831)	(3,928,568)	28,418,309	(17,618,381)
Other Financing Sources (Uses)					
Premium on Debt Issuance	4,890,992	-	-	-	4,890,992
Issuance of Debt	-	65,975,000	-	-	65,975,000
Transfers In	19,948,730	8,498,000	7,720,000	112,124	36,278,854
Transfers Out	(6,223,000)	(112,124)	-	(29,238,155)	(35,573,279)
Total Other Financing (Uses) Sources	18,616,722	74,360,876	7,720,000	(29,126,031)	71,571,567
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	32,811,431	18,058,045	3,791,432	(707,722)	53,953,186
Fund Balance - Beginning	163,169,927	65,344,333	31,912,928	36,316,027	296,743,215
Fund Balance - Ending	\$ 195,981,358	\$ 83,402,378	\$ 35,704,360	\$ 35,608,305	350,696,401

(1) Extracted from the audited financial statements of the City.

CITY OF CAMBRIDGE, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
June 30, 2012 (1)

Revenues	General	Capital Fund	Affordable Housing Trust Fund	Other Governmental Funds	Total Governmental Funds
Real and Personal Property Taxes	\$ 297,723,747	\$ -	\$ -	\$ -	\$ 297,723,747
Excises:					
Hotel Motel Meals	14,954,425	-	-	-	14,954,425
Motor Vehicles	6,238,835	-	-	-	6,238,835
Payments in Lieu of Taxes	7,586,219	-	-	-	7,586,219
Intergovernmental	31,954,472	13,093,858	-	23,137,698	68,186,028
Investment Income	864,286	8,621	468,121	117,402	1,458,430
Sewer Use Charges	40,579,119	3,961,957	-	-	44,541,076
Departmental and Other	43,555,600	-	131,453	32,460,692	76,147,745
Total Revenues	\$ 443,456,703	\$ 17,064,436	\$ 599,574	\$ 55,715,792	\$ 516,836,505
Expenditures					
Current:					
General Government	35,852,058	-	-	171,374	36,023,432
Public Safety	103,388,702	-	-	1,327,220	104,715,922
Community Maintenance and Development	36,682,794	-	18,766,888	2,558,058	58,007,740
Human Resource Development	30,919,537	-	-	8,228,736	39,148,273
Education	139,276,389	-	-	13,906,443	153,182,832
Judgements and Claims	4,112,551	-	-	-	4,112,551
State and District Assessments	46,146,725	-	-	-	46,146,725
Capital Outlays	-	65,406,232	-	-	65,406,232
Debt Service	44,562,469	-	-	-	44,562,469
Total Expenditures	440,941,225	65,406,232	18,766,888	26,191,831	551,306,176
Excess (Deficiency) of Revenues Over Expenditures	2,515,478	(48,341,796)	(18,167,314)	29,523,961	(34,469,671)
Other Financing Sources (Uses)					
Premium on Debt Issuance	5,851,746	-	-	-	5,851,746
Issuance of Debt	24,850,000	56,515,115	-	-	81,365,115
Transfers In	19,478,490	5,462,402	7,680,000	417,972	33,038,864
Transfers Out	(3,926,506)	(367,972)	-	(28,050,431)	(32,344,909)
Payment to Fiscal Escrow Agent	(29,029,117)	-	-	-	(29,029,117)
Total Other Financing (Uses) Sources	17,224,613	61,609,545	7,680,000	(27,632,459)	58,881,699
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Sources	19,740,091	13,267,749	(10,487,314)	1,891,502	24,412,028
Fund Balance - Beginning	143,429,836	52,076,584	42,400,242	34,424,525	272,331,187
Fund Balance - Ending	\$ 163,169,927	\$ 65,344,333	\$ 31,912,928	\$ 36,316,027	\$ 296,743,215

(1) Extracted from the audited financial statements of the City.

Free Cash (Uniform System of Accounting)

Under the Massachusetts Uniform System of Accounting an amount known as "free cash" is certified as of the beginning of each fiscal year by the Massachusetts Department of Revenue, Bureau of Accounts. This unrestricted fund balance (known as "free cash") is generated when actual revenue collections exceed budget estimates and/or unexpended appropriation balances lapse at year end to the general treasury.

A redetermination of free cash by the city auditor for the purpose of determining available funds for appropriations is allowed (but not required) on the last day of the month preceding the month in which the tax rate is determined but no later than July 31. This is done by adding collections of prior years' taxes and receipts from tax title redemptions and sale of tax possessions to the amount certified and deducting appropriations made from free cash between the date of certification and July 31.

<u>July 1,</u>	<u>Surplus Revenue (1)</u>	<u>Free Cash (2)</u>
2016	\$234,884,567	\$202,468,578
2015	222,503,711	192,690,567
2014	187,371,294	160,476,318
2013	168,778,825	142,176,089
2012	144,634,283	115,826,900

- (1) Surplus revenue is not reduced by revenue deficits from tax abatements in excess of overlay or revenue deficits resulting from non-property tax receipts being less than estimates, both of which are added to the next tax levy. It also does not include special funds, such as water.
- (2) The calculation of Free Cash by the Department of Revenue is based on financial statements prepared by the City's Finance Department in accordance with Uniform Municipal Accounting System (UMAS) principles. This method differs in certain areas from Generally Accepted Accounting Principles (GAAP), which causes a difference between the figures shown here as Surplus Revenue or (Deficit), or Undesignated Fund Balance, and those shown in the KPMG audited financial statements in Appendix A.

Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 21/2 (see "Property Tax Limitations" under 'PROPERTY TAXATION' above.) To date, the City has not established any such district.

INDEBTEDNESS

Authorization Procedure and Limitations

Serial bonds and notes are authorized by vote of two-thirds of all the members of the city council (subject to the mayor's veto where the mayor has a veto power) or a two-thirds vote of the town meeting. Provision is made in some cities and towns for a referendum on the borrowing authorization if there is a timely filing of a petition bearing the requisite number of signatures. Refunding bonds and notes are authorized by the city council or the selectmen. Borrowings for some purposes require State administrative approval.

When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary debt in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be incurred by the treasurer with the approval of the selectmen, mayor or city manager as the case may be.

Bonds and notes including refunding bonds are generally authorized on behalf of the City by vote of two-thirds of all the members of the City Council with the approval of the Mayor. Provision is made for a referendum on the filing of a petition bearing the requisite number of signatures. Borrowings for certain purposes require state administrative approval. When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary debt in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be incurred by the Treasurer with the approval of the Mayor and the Controller of Accounts.

The general debt limit of the City consists of normal debt limit and a double debt limit. The normal debt limit is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The City can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with the approval of the State Municipal Finance Oversight Board.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue ("DOR"). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the Bonds or notes being refunded.

thereby, however, principal payments made before the first principal payment of any of the Bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as “qualified bonds” with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service paid by the State from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Tax Credit Bonds or Notes. Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as “tax credit bonds” to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

Bond Anticipation Notes. These generally must mature within ten years of their original dates of issuance but may be refunded from time to time for a period not to exceed ten years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the Bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. Generally, they must mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth’s Clean Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy.

CITY OF CAMBRIDGE
DIRECT DEBT SUMMARY (1)
As of June 30, 2016 – Includes Pending Issues of Series A and Series B Bonds

General Obligation Bonds (before current issue)	\$ 376,872,924
MCWT and MWRA Loans	33,301,986
Gross Direct Debt	<u>\$ 410,174,910</u>
Pending Issues	58,545,000
TOTAL GROSS DIRECT DEBT	<u>\$ 468,719,910</u>
Less:	
Self-Supporting GO Water Bonds	7,720,000
Self-Supporting GO Sewer Bonds	118,367,464
Self-Supporting GO Golf Course	550,000
Self-Supporting MCWT and MWRA Loans	33,301,986
Self-Supporting Hospital Bonds	2,995,000
Self-Supporting Current Issue for Sewer	<u>21,045,000</u>
SUBTOTAL SELF-SUPPORTING	<u>\$ 183,979,450</u>
TOTAL NET DIRECT DEBT	<u>\$ 284,740,460</u>

- (1) Outstanding principal on general obligation bonds. Excludes temporary notes, lease and installment purchase obligations, overlapping debt, and unfunded pension liability.

CITY OF CAMBRIDGE
FIVE-YEAR DEBT SUMMARY (1)(2)
OUTSTANDING GENERAL OBLIGATION DEBT
(\$ in 000s)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Inside.....	\$ 305,003	\$ 334,995	\$ 332,414	\$ 382,325	\$ 390,972
Outside:					
School.....	7,627	6,822	6,017	5,212	4,407
Water.....	<u>27,483</u>	<u>25,063</u>	<u>21,642</u>	<u>18,219</u>	<u>14,795</u>
Sub-Total.....	35,110	31,885	27,659	23,431	19,202
Total.....	<u><u>\$ 340,113</u></u>	<u><u>\$ 366,880</u></u>	<u><u>\$ 360,073</u></u>	<u><u>\$ 405,756</u></u>	<u><u>\$ 410,175</u></u>

- (1) Outstanding principal on general obligation bonds. Excludes temporary notes, lease and installment purchase obligations, overlapping debt, and unfunded pension liability. As of June 30 of each fiscal year.
- (2) Does not include current issue.

Debt Ratios

The table below sets forth the percentage of debt to assessed valuation and per capita debt as of June 30, 2016. The table considers the principal amount of general obligation bonds of the City only. The table does not deduct anticipated state grant payments applicable to the principal amount of outstanding or debt that may be supported in whole, or part, by non-tax revenues. (See "Direct Debt Summary".)

	Amount (1)	Per Capita (2)	Ratio to Assessed Valuation (3)
Gross Direct Debt	\$ 410,174,910	\$ 3,900	1.18 %
Net Direct Debt (4)	223,617,960	2,126	0.64
Gross Direct and Gross Overlapping Debt	941,335,839	8,951	2.71
Net Direct and Net Overlapping Debt	754,778,889	7,177	2.18

(1) Excludes current bond issue.

(2) Based on 2010 population of 105,162.

(3) Based on January 1, 2016 value of \$34,680,060,680.

(4) Excludes general obligation bonds that are in practice repaid from user fees and thus are self-supporting. This includes GO bonds issued for water and sewer purposes. Also excludes portion of principal of school bonds expected to be paid with state grants and loans from the Massachusetts Clean Water Abatement Trust (MCWT) to be paid from state assistance.

Source: City Department of Finance.

CITY OF CAMBRIDGE RATIO OF GROSS DIRECT DEBT TO ASSESSED VALUE AND GROSS DIRECT DEBT PER CAPITA

Fiscal Year	Population (1)	Assessed Value (2)	Gross Direct Debt (3)	Ratio of Gross Direct Debt to Assessed Value	Gross Direct Debt Per Capita
2016	105,162	\$ 34,680,060,680	\$ 410,174,910	1.18 %	\$ 3,900
2015	105,162	30,143,180,521	405,756,910	1.35	3,858
2014	105,162	27,161,648,788	360,073,460	1.33	3,424
2013	105,162	25,213,972,501	366,880,453	1.46	3,489
2012	105,162	24,446,954,999	340,113,511	1.39	3,234

(1) Population estimates are from the U.S. Department of Commerce, Bureau of the Census.

(2) All of the assessed values shown reflect full market value.

(3) As of June 30 of that fiscal year and excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability. Includes full principal on MCWT and MWRA sewer loans.

Source: City Department of Finance

Debt Service Requirements

The following table sets forth the required principal and interest payments on outstanding general obligation bonds of the City as of June 30, 2016.

CITY OF CAMBRIDGE – GENERAL OBLIGATION BONDS Debt Service Requirements As of June 30, 2016 (1)(2)

Fiscal Year	Outstanding as of 6/30/2016		This Issue (2)		Total
	Principal	Interest	Principal	Interest	
2017	\$ 47,027,836	\$ 13,910,721	\$ -	\$ -	\$ 60,938,556
2018	45,113,335	12,526,927	-	29,956	57,670,217
2019	40,542,008	11,019,935	-	32,000	51,593,942
2020	37,979,884	9,631,627	-	32,000	47,643,511
2021	36,598,986	8,328,741	-	32,000	44,959,728
2022	33,794,344	6,972,054	2,000,000	32,000	42,798,399
2023	30,481,327	6,005,641	-	-	36,486,968
2024	26,562,572	4,938,368	-	-	31,500,940
2025	24,555,330	3,879,266	-	-	28,434,596
2026	19,199,288	2,943,016	-	-	22,142,304
2027	12,980,000	2,275,656	-	-	15,255,656
2028	12,150,000	1,830,994	-	-	13,980,994
2029	10,180,000	1,405,138	-	-	11,585,138
2030	8,155,000	1,053,669	-	-	9,208,669
2031	6,905,000	783,569	-	-	7,688,569
2032	5,900,000	557,875	-	-	6,457,875
2033	5,375,000	376,250	-	-	5,751,250
2034	3,525,000	209,000	-	-	3,734,000
2035	2,600,000	97,250	-	-	2,697,250
2036	550,000	17,875	-	-	567,875
TOTALS	<u>\$ 410,174,910</u>	<u>\$ 88,763,570</u>	<u>\$ 2,000,000</u>	<u>\$ 157,956</u>	<u>\$ 501,096,435</u>

(1) Excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability. Includes full principal and interest on MCWT and MWRA sewer loans.

(2) Totals may not agree with sum of figures due to rounding.

Authorized Unissued Debt and Prospective Financing

Following delivery of the Bonds, the City will have approximately \$227.5 million authorized unissued debt for various municipal purposes.

Overlapping Debt

The City is a member of the Massachusetts Water Resources Authority and Massachusetts Bay Transportation Authority. The following table sets forth the outstanding bonded debt, exclusive of temporary loans in anticipation of bonds or current revenue, of the Massachusetts Water Resources Authority and the Massachusetts Bay Transportation Authority and the City's gross share of such debt as the fiscal 2017 dollar assessment for each.

Overlapping Entity	Outstanding Debt as of 6/30/16	Cambridge's Estimated Share(1)	Fiscal 2017 Dollar Assessment(2)
Massachusetts Water Resources Authority (3) Sewer	\$ 3,690,804,000	5.719 %	\$ 8,775,170
Massachusetts Bay Transportation Authority (4)	5,656,191,000	5.659	9,281,480

(1) Estimated share based on debt service only; excludes temporary loans and lease payments.

(2) Estimated dollar assessment based upon total net operating expenses, inclusive (where applicable) of debt service.

(3) SOURCE: The Massachusetts Water Resources Authority (the "MWRA") provides wholesale drinking water services in whole or in part to 48 cities, towns and special purpose entities and provides wastewater collection and treatment services to 43 cities, towns and special purpose entities. Under its enabling legislation, as amended, the aggregate principal amount of all bonds issued by the MWRA for its corporate purposes may not exceed \$6.1 billion outstanding at any time. Its obligations are secured by revenues of the MWRA. The MWRA assesses member cities, towns and special purpose entities, which continue to provide direct retail water and sewer services to users. The cities, towns and other entities collect fees from the users to pay all or part of the assessments; some municipalities levy property taxes to pay part of the amounts assessed upon them.

(4) Source: The Massachusetts Bay Transportation Authority (the "MBTA") was created in 1964 to finance and operate mass transportation facilities within the greater Boston metropolitan area. Under its enabling act, the MBTA is authorized to issue bonds for capital purposes, other than refunding bonds, and for certain specified purposes to an outstanding amount, which does not exceed the aggregate principal amount of \$3,556,300,000. In addition, pursuant to certain of the Commonwealth's transportation bond bills, the MBTA is authorized to issue additional bonds for particular capital projects. The MBTA also is authorized to issue bonds of the purpose of refunding bonds. Under the MBTA's enabling act debt service, as well as other operating expenses of the MBTA, are to be financed by a dedicated revenue stream consisting of the amounts assessed on the cities and towns of the MBTA and a dedicated portion of the statewide sales tax. The amount assessed to each city and town is based on its weighted percentage of the total population of the authority as provided in the enabling act. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year. (See "Tax Limitations" under "PROPERTY TAX" above.)

Contractual Obligations

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Municipal contracts relating to solid waste disposal facilities may contain provisions requiring the delivery of minimum amounts of waste and payments based thereon and requiring payments in certain circumstances without regard to the operational status of the facilities.

Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facilities.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The City has not entered into any substantial financing lease or installment purchase contracts, but does lease certain real estate at an annual aggregate rental cost of approximately \$550,000.

The City has two major contractual obligations subject to annual appropriation. The City has a contract with Eastern Bus Co. for school buses which expires on August 31, 2020. The City appropriates approximately \$18,300,000 for this contract annually. The City also has a contract with FW Russell & Sons for disposal of solid waste which expires on October 31, 2020. The City appropriates approximately \$9,660,000 for this contract annually.

RETIREMENT PLAN

The Massachusetts General Laws (Chapter 32, Sections 1-28) provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city, and town employees other than teachers. Teachers are assigned to a separate statewide teacher's system and not to the City system. Substantially all employees of the City are covered.

In addition to the contributory systems, the City provides non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents.

The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of the City of Cambridge under the Contributory Pension Law are contractual legal obligations and are required to be included in the annual tax levy.

If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and town may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. The funding schedule must provide that payment in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule.

Pursuant to recent legislation, a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for retirees in the City retirement system would be granted and funded by the retirement system. Those statutory provisions are subject to acceptance by the Retirement Board with the approval of the City Council, which acceptance may not be revoked. The City Council approved this legislation on June 1, 1998 and it took effect on July 1, 1998. Legislation provides that upon local acceptance and subject to certain conditions and limitations, a municipality may establish and implement an early retirement incentive program. Any plan for such program must have been submitted to PERAC by September 27, 2010.

The annual contributions of the City to the contributory and non-contributory retirement system for the 2012 to 2016 fiscal years are set forth below:

Fiscal Year	Contributory (1)	Non-contributory	Total
2016	\$35,699,468	\$900,000	\$36,599,468
2015	34,083,618	1,000,000	35,083,618
2014	32,176,284	1,000,000	33,176,284
2013	30,369,208	1,350,000	31,719,208
2012	30,729,303	1,350,000	32,079,303

(1) Contributory figure indicated has been determined by the Commonwealth.

An actuarial study conducted by an independent audit firm determined that the unfunded pension liability of the Cambridge Retirement System was \$250,216,274 as of January 1, 2014. In January, 1991, the City established a state-approved funding schedule, which is updated biennially. The latest study dated January 1, 2016, estimates that the City's unfunded actuarial liabilities will be eliminated by June 30, 2026 as shown in the schedule below.

The total unfunded pension benefit obligation applicable to the City's employees was \$252,906,690 at January 1, 2016, computed as follows, assuming a 7.75% investment rate of return:

Actuarial accrued liability	\$1,337,405,483
Actuarial value of assets	<u>1,084,498,793</u>
Unfunded actuarial accrued liability	<u>\$252,906,690</u>

(1) Fiscal Year Ended June 30	(2) Employer Normal Cost	(3) Amortization of Remaining Unfunded Liability	(4) Total Plan Cost: (2) + (3)	(5) Additional Payment	(6) Total Unfunded Accrued Liability	(7) Increase Over Prior Appropriation
2017	\$11,089,317	\$28,658,574	\$39,747,891	\$300,000	\$262,523,966	5.8500%
2018	11,527,942	30,545,201	42,073,143	300,000	252,809,793	5.8500%
2019	11,983,764	32,550,658	44,534,422	300,000	240,384,401	5.8500%
2020	12,457,454	34,682,232	47,139,686	300,000	224,914,323	5.8500%
2021	12,949,706	36,947,652	49,897,358	300,000	206,032,683	5.8500%
2022	13,461,243	39,355,110	52,816,353	300,000	183,336,148	5.8500%
2023	13,992,814	41,913,296	55,906,110	300,000	156,381,626	5.8500%
2024	14,545,199	44,631,418	59,176,617	300,000	124,682,662	5.8500%
2025	15,119,207	47,519,242	62,638,449	300,000	87,705,544	5.8500%
2026	15,715,679	46,271,143	61,986,822	300,000	44,865,060	-1.0403%
2027	16,335,487	--	16,335,487	--	--	-73.6468%

Notes: Recommended contributions are assumed to be paid in the middle of the fiscal year

Assumes contribution of budgeted amount for fiscal year 2017.

Item (2) reflects 3.5% growth in payroll and a 0.15% adjustment to total normal cost to reflect the effect of mortality improvements due to the generational mortality assumption.

Projected normal cost does not reflect the future impact of pension reform for new hires.

Source: January 1, 2016 Actuarial Valuation of the Cambridge Contributory Retirement System prepared by Segal Consulting.

Other Post-Employment Benefits

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities and towns is generally provided on a pay-as-you-go basis. The Governmental Accounting Standards Board ("GASB") recently promulgated its Statement Nos. 43 and 45, which will for the first time require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These new accounting standards do not require pre-funding the payment of these costs as the liability for such costs accrues, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if the cost of such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. In addition, cities and towns may establish a trust fund for the purpose of pre-funding other post-employment benefits liability in the same manner as traditional pension benefits.

The pay-as-you-go cost to the City for such benefits in recent years has been as follows:

Fiscal Year	Amount
2016	\$21,404,129
2015	21,382,276
2014	22,211,000
2013	22,697,826
2012	22,548,438

The Governmental Accounting Standards Board ("GASB") promulgated its Statement Nos. 43 and 45, which require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits.

The City was required to implement the GASB statements for other post-employment benefits beginning in fiscal year 2008. An actuarial valuation dated May 18, 2007 of the City's post-employment welfare benefit program was prepared for the City by The Segal Company with an updated report prepared by Gallagher Benefit Services, Inc. indicating that the unfunded actuarial accrued liability (the "UAAL") based on an actuarial valuation as of July 1, 2015 was \$550,704,000.

The GASB Statements provide the method for selecting the investment return assumption (discount rate). If the benefits are pre-funded, the discount rate is based on the estimated long-term investment yield on the investments expected to be used to finance the payment of benefits. A pre-funded discount rate is used when the City's funding policy is to contribute consistently an amount at least equal to the Annual Required Amount (the "ARC"), an amount equal to the normal cost of the benefits plus an amount to amortize the unfunded actuarial accrued liability relating to the benefits (the "UAAL"). If financing continues to be pay-as-you-go, the discount rate is based on the expected yield on the assets of the employer. The City's valuation report used a discount rate of 4.0%.

The City selected the pay-as-you-go (4.0% interest rate) projected unit credit cost method with figures in the next paragraph based on an Annual Required Contribution (ARC) of \$46,020,000.

During fiscal year 2016, the City estimates it will pay claims and expenses (net of retiree contributions) on behalf of all retired employees of approximately \$19,647,000. Based on the methodology selected by the City using the latest actuarial report, the resulting ARC would require an additional payment by the City for fiscal year 2016 of approximately \$23,094,000.

The City accepted Chapter 32B, Section 20 of the Massachusetts General Laws which established an Other Post Employment Liability Trust by a vote of the City Council on December 21, 2009. This is an irrevocable trust fund into which contributions will be made to meet the unfunded liability. The City Council also approved a transfer from the Health Claims Trust Fund to the Other Post Employment Liability Trust of \$2,000,000 to begin the process of funding the unfunded liability, in fiscal 2010.

EMPLOYEE RELATIONS

City employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours, and other terms and conditions of employment.

The City has approximately 3,500 employees, of whom approximately 75 percent belong to unions or other collective bargaining groups as shown in the table below.

Groups	Department	Number of Employees Represented	Contract Expires
Teamsters Local 25	City	318	6/30/2017
Teachers and Administrators (Mass. Teachers Assoc.)	School	976	8/31/2016 (1)
Clerical	School	52	6/30/2018
Custodians (AFSCME AFL-CIO)	School	74	6/30/2018
Food Service	School	64	6/30/2018
Safety Specialist	School	11	6/30/2018
Paraprofessionals (affiliated with Mass. Teachers Assoc.)	School	244	8/31/2018
Substitute Teachers	School	153	8/31/2018
Family Resource Liaison (AFSNE)	School	15	8/31/2018
International Assoc. of Firefighters	Fire	269	6/30/2015 (1)
Patrol Officers	Police	217	6/30/2014 (1)
Superior Officers	Police	51	6/30/2017
Traffic Supervisors	Police	38	6/30/2017
Independent Water Workers Association	Water	25	6/30/2017
Professional Librarians	Library	78	6/30/2018
Inspectional Services (Building, Trades)	Inspectional	16	6/30/2017
Childcare Workers	Human Services	38	6/30/2017
Supervisors	Public Works	11	6/30/2018
Supervisors	Emergency Communications	7	6/30/2018
		2,657	

(1) Contracts under negotiation.

Source: City Personnel Department.

LITIGATION

In the opinion of the City Solicitor, there is no litigation of any kind now pending or threatened to restrain or enjoin the issuance or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Bonds are issued. In the opinion of the City Solicitor, there is no pending legislation which is likely to result, either individually or in the aggregate, in final judgments against the City that would materially affect its financial position or its ability to pay its obligations.

CITY OF CAMBRIDGE, MASSACHUSETTS
/s/ Ms. Jeana Franconi, Budget Director

February 23, 2017



CITY OF CAMBRIDGE, MASSACHUSETTS

Financial Statements, Required Supplementary Information
and Supplemental Schedules

June 30, 2016

(With Independent Auditors' Report Thereon)

CITY OF CAMBRIDGE, MASSACHUSETTS

Comprehensive
Annual Financial Report

June 30, 2016

Table of Contents

	Page(s)
Financial Section	
Independent Auditors' Report	A-1–A-3
Management's Discussion and Analysis – Required Supplementary Information (Unaudited)	A-4–A-15
Basic Financial Statements:	
Statement of Net Position	A-16
Statement of Activities	A-17
Balance Sheet – Governmental Funds	A-18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	A-19
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	A-20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	A-21
Statement of Net Position – Proprietary Fund	A-22
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	A-23
Statement of Cash Flows – Proprietary Fund	A-24
Statement of Fiduciary Net Position	A-25
Statement of Changes in Fiduciary Net Position	A-26
Notes to Basic Financial Statements	A-27–A-61

CITY OF CAMBRIDGE, MASSACHUSETTS

Comprehensive
Annual Financial Report

June 30, 2016

Table of Contents

	Page(s)
Required Supplementary Information (Unaudited):	
Schedule of OPEB Funding Progress	A-62
Schedule of Employers' Contributions – OPEB	A-63
Schedule of the Net Pension Liability	A-64
Schedule of Changes in the Net Pension Liability	A-65
Schedule of Investment Returns	A-66
Schedule of Contributions-City of Cambridge Retirement System	A-67
Schedule of Contributions – City of Cambridge	A-68
Schedule of City's Proportionate Share of the Net Pension Liability	A-69
Schedule of Revenues and Expenditures – Budgetary Basis – General Fund – Budget and Actual	A-70
Notes to Required Supplementary Information – Schedule of Revenues and Expenditures	A-71
Supplemental Statements and Schedules:	
Schedule of Expenditures – Budgetary Basis – General Fund	A-72–A-77
Other Governmental Funds	A-78
Combining Financial Statements:	
Combining Balance Sheet – Other Governmental Funds	A-79
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Other Governmental Funds	A-80
Agency Funds	A-81
Combining Statement of Changes in Assets and Liabilities – Agency Funds	A-82–A-83
Other Schedules	A-84
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes	A-85–A-87
Schedule of Bonds and Notes Payable	A-88–A-89



KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

The Honorable Mayor and City Council
City of Cambridge, Massachusetts:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Adoption of New Accounting Pronouncement

As discussed in note 2(o) to the financial statements, in 2016, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles 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 a part of the basic financial statements, is required by the GASB 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplemental statements and schedules are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplemental statements and schedules are the responsibility of management and were 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 to 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 supplemental statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance



and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KPMG LLP

January 10, 2017

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Management of the City of Cambridge (the City) provides this Management's Discussion and Analysis as part of the City's Comprehensive Annual Financial Report (CAFR) to assist readers of the basic financial statements in understanding the financial activities of the City for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the transmittal letter at the front of this report and the City's basic financial statements, which follow this section.

Overview of the Financial Statements

The City's financial statements present two types of statements each with a different view of the City's finances. This approach focuses on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide statements report information about the City as a whole, with the exception of fiduciary activities, and use accounting methods similar to those used by private-sector companies. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic position at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are reported even if cash involved has not been received or disbursed. The government-wide financial statements include two statements:

Statement of Net Position – Presents all of the government's assets and liabilities, with the difference being reported as "net position". The amount of net position is widely considered a good measure of the City's financial health as increases and decreases in the City's net position serve as a useful indicator of whether the City's financial position is improving or deteriorating. The reader should consider other nonfinancial factors, such as the condition of the City's infrastructure and changes to the property tax base, to assess the overall health of the City.

Statement of Activities – Presents information showing how the government's net position changed during the most recent fiscal year. Revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods, i.e., uncollected taxes or earned but unused sick and vacation time. This statement also presents a comparison between direct expenses and program revenues for each function of the City.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2016

(Unaudited)

In the government-wide statements, financial information is presented in three columns in order to summarize the City's programs or activities. The types of activities presented are as follows:

Governmental Activities – Taxes and intergovernmental revenues primarily support the functions of the government and are reported in this section. Most of the City's basic services are reported here including general government, public safety, public works, parks and recreation, library, schools, human services, public health programs, state and district assessments, debt service and other employee benefits.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. The Water Fund operation is considered a business-type activity.

Discretely Presented Component Unit – Includes a separate legal entity for which the City has financial accountability and provides operating subsidies. This entity, The Cambridge Health Alliance, (CHA) operates similar to a private sector business and the business-type activity described above.

Complete financial statements for the CHA can be obtained from its administrative offices located at 101 Station Landing, 5th Floor, Medford, Massachusetts, 02155.

Fund Financial Statements

Traditional users of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to keep control over resources that have been allocated to specific projects or activities. The City uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

All of the funds of the City can be divided into three categories as follows:

Governmental Funds – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near-term inflows and outflows of resources to be spent. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating the City's near-term financing requirements. This approach is the modified accrual basis of accounting, which uses the flow of current financial resources measurement focus. Such statements provide a detailed short-term view of the City's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This comparison will assist the reader in understanding the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate the comparison. The reconciliations are presented on the page immediately following each respective governmental fund financial statement.

The City has several governmental funds; three are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are aggregated and shown as other governmental funds.

Proprietary Fund – Provides services for which the City charges customers a fee and operates like a commercial business. The proprietary fund provides the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for the business-type activity and the proprietary fund financial statements.

Fiduciary Funds – Such funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The full accrual basis of accounting is used for fiduciary funds and is much like that used for proprietary funds.

The City's fiduciary funds are the Employee Retirement System, the OPEB Trust Fund and the Agency funds, which are used to account for assets held in agency capacity.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the City's general fund – the only fund for which an annual budget is legally adopted. The budgetary comparison also includes a reconciliation of revenues and expenditures reported on the City's budgetary basis of accounting and the revenues and expenditures reported on a GAAP basis. Also included is historical information for the City's pension and other postemployment benefit obligations and related schedules of employers' contributions.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Government-Wide Financial Analysis

Statement of Net Position

The following table reflects the condensed net position based on the statement of net position found on page A-16.

The City's combined net position (governmental and business-type activities) exceeded its liabilities at June 30, 2016 by \$887.1 million (presented as net position). Of this amount, \$19.9 million was reported as "unrestricted net position". Unrestricted net position represents the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

The components of net position are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (roads, sewer pipes, dams, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is \$793.9 million and indicates the amount of the net book value of the City's capital assets that exceeds capital debt. Since most of the City's debt has a ten-year life, a considerable amount of the City's capital asset lives extend beyond the life of the debt. The City uses these capital assets to service the community; therefore, they are not available for future spending. Other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

Included within the governmental activities current and other assets are cash and investments of \$476.3 million, up 3.4% from prior year; net receivables of \$52.1 million; and \$3.0 million due from the Cambridge Health Alliance.

Governmental activities long-term liabilities include \$385.7 million in general obligation bonds and notes payable; \$12.0 million in compensated absence liabilities for unused sick and vacation leave; and \$8.7 million in future year workers' compensation, health benefits and possible judgments. The major change in the long-term liabilities is attributable increases in both the City's net pension liability of \$90.2 million and the other post-employment benefit obligations of \$23.1 million.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Business-type activity long-term liabilities include \$5.3 million in general obligation bonds, \$384 thousand in compensated absences and \$1.0 million in future year workers' compensation and health benefits. The net reduction of \$2.6 million in general obligation bonds compared to prior year is attributable to an aggressive ten-year repayment schedule for most debt.

Condensed Schedule of Net Position

June 30, 2016 and 2015

(In millions)

	Governmental activities		Business-type activity		Total primary government	
	June 30		June 30		June 30	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 533.0	510.2	18.7	16.4	551.7	526.6
Capital assets	1,061.3	999.2	129.7	130.3	1,191.0	1,129.5
Total assets	1,594.3	1,509.4	148.4	146.7	1,742.7	1,656.1
Deferred outflows	101.6	20.9	0.1	0.2	101.7	21.1
Total assets and deferred outflows	\$ 1,695.9	1,530.3	148.5	146.9	1,844.4	1,677.2
Long-term liabilities	\$ 826.3	710.1	6.6	9.4	832.9	719.5
Other liabilities	114.2	110.3	3.7	3.9	117.9	114.2
Deferred inflows	6.3	3.4	—	—	6.3	3.4
Total liabilities and deferred inflows	\$ 946.8	823.8	10.3	13.3	957.1	837.1
Net position:						
Net investment in capital assets	\$ 673.7	637.6	120.2	120.2	793.9	757.8
Restricted	73.3	52.9	—	—	73.3	52.9
Unrestricted	1.9	16.0	18.0	13.4	19.9	29.4
Total net position	\$ 748.9	706.5	138.2	133.6	887.1	840.1

Statement of Changes in Net Position

The City's total net position increased by \$47.0 million in fiscal year 2016 of which the governmental activities net position increased \$42.4 million and the business-type activity increased \$4.6 million. The continued investment in the City's capital assets of \$62.1 million and increased cash reserves of \$15.5 million are contributors to governmental activities increase in assets. The main increase in liabilities is due to pension and other post-employment benefits obligations.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2016

(Unaudited)

This summary of net changes is based upon the statement found on page A-17.

Condensed Schedule of Changes in Net Position

June 30, 2016 and 2015

(In millions)

	Governmental activities		Business-type activity		Total primary government	
	June 30		June 30		June 30	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 118.4	111.0	19.3	20.1	137.7	131.1
Operating grants and contributions	24.5	23.3	—	—	24.5	23.3
Capital grants and contributions	15.5	21.9	—	—	15.5	21.9
General revenues:						
Taxes:						
Property taxes levied	357.0	343.6	—	—	357.0	343.6
Excises	26.8	25.1	—	—	26.8	25.1
Payment in lieu of taxes	9.2	8.1	—	—	9.2	8.1
Grants and contributions not restricted	52.6	45.5	—	—	52.6	45.5
Investment income	3.3	1.7	0.2	0.2	3.5	1.9
Miscellaneous	31.2	36.6	—	—	31.2	36.6
Total revenues	<u>638.5</u>	<u>616.8</u>	<u>19.5</u>	<u>20.3</u>	<u>658.0</u>	<u>637.1</u>
Expenses:						
General government	56.4	29.0	—	—	56.4	29.0
Public safety	134.8	138.6	—	—	134.8	138.6
Community maintenance and development	112.9	102.2	—	—	112.9	102.2
Human resource development	53.4	50.6	—	—	53.4	50.6
Education	228.4	211.0	—	—	228.4	211.0
Water department	—	—	14.2	14.2	14.2	14.2
Interest	10.9	9.4	—	—	10.9	9.4
Total expenses	<u>596.8</u>	<u>540.8</u>	<u>14.2</u>	<u>14.2</u>	<u>611.0</u>	<u>555.0</u>
Excess before transfers	41.7	76.0	5.3	6.1	47.0	82.1
Transfers	<u>0.7</u>	<u>0.7</u>	<u>(0.7)</u>	<u>(0.7)</u>	<u>—</u>	<u>—</u>
Change in net position	42.4	76.7	4.6	5.4	47.0	82.1
Net position – beginning	<u>706.5</u>	<u>629.8</u>	<u>133.6</u>	<u>128.2</u>	<u>840.1</u>	<u>758.0</u>
Net position – ending	<u>\$ 748.9</u>	<u>706.5</u>	<u>138.2</u>	<u>133.6</u>	<u>887.1</u>	<u>840.1</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

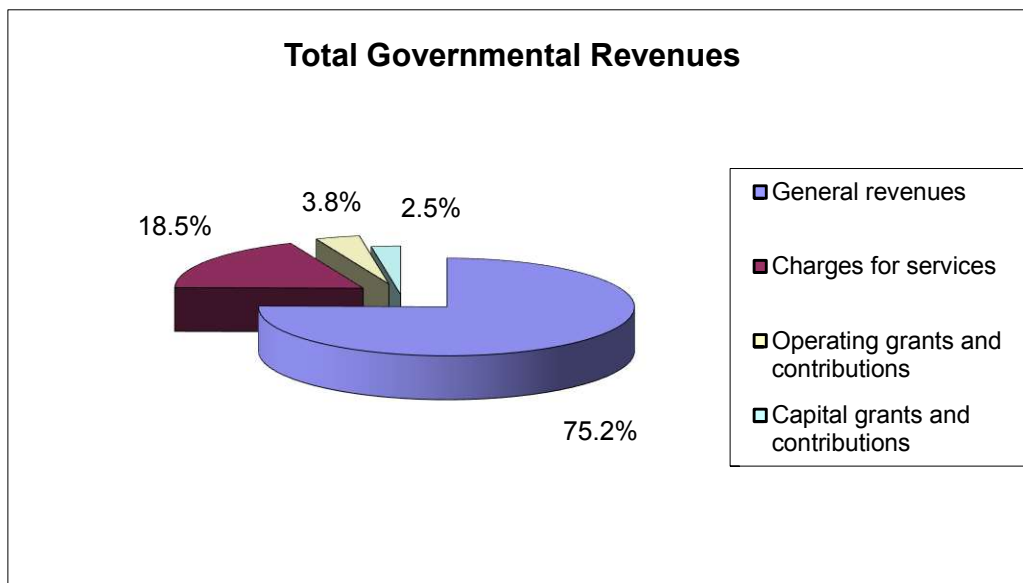
Required Supplementary Information Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Total Revenues

Total governmental activities revenues for the City are comprised of general revenues of \$480.1 million, charges for services \$118.4 million, operating grants and contributions \$24.5 million and capital grants and contributions of \$15.5 million.



General

Real estate tax revenues are the City's largest revenue source at \$357.0 million representing 74.4% of general revenues. The assessed tax valuation base is \$34.7 billion up from \$30.1 billion assessed in the prior year showing a 15.1% increase mainly due to an increase in new construction.

Grants and contributions not restricted to specific programs is \$52.6 million representing 11.0% of general revenues and include state cherry sheet revenues, Massachusetts Teachers Retirement contributions and other unrestricted contributions.

Program

Charges for services are \$118.4 million and represent a variety of department revenues. Charges for services increased \$7.4 million from the prior year. The public safety portion of \$58.7 million includes several types of permit revenues, traffic and moving violation revenues, and City garage revenues. The community maintenance and development portion of \$52.5 million includes sewer service revenues, community cable revenues, as well as, other public works type fees. The increase is predominately due to a surge in building permit revenues as commercial construction continues to be strong throughout Cambridge.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Operating grants and contributions of \$24.5 million represents several federal and state grants restricted to specific grant conditions. This amount accounts for approximately 3.5% of the total City revenues. Capital grants and contributions of \$15.5 million include community development capital grants, state revolving grants, state school construction grants, and other capital restricted revenues. The capital grants revenue dropped because a large grant funded sewer project is complete.

Expenses

For the fiscal year ended June 30, 2016, expenses for government activities totaled \$596.8 million, which cover a range of services. On the whole, the City's expenses increased approximately \$56.0 million or 10.3% over prior year. Included in this amount is the City's pension expense which increased approximately \$18.8 million and is reflected in the general government expense.

Education continues to be one of the City's highest priorities and commitments, representing \$228.4 million or 38.2% of the total governmental activities expenses.

Another important issue to the City is affordable housing and the preservation of open space. This is the fourteenth year of the Community Preservation Act (CPA). This program fosters the investment into permanent affordable housing projects, preservation of historic locations, protection of open space and the restoration/creation of parks and recreation areas. Expenses related to these initiatives are recorded in the community maintenance and development category. During 2016, the City spent \$21.3 million from the Affordable Housing Trust to subsidize housing projects.

Business-Type Activity

Business-type activity increased net position by \$4.6 million. Although the water rates didn't increase in FY16, a slight increase in consumption and a decrease in debt service payments along with managed expenditure controls are main contributors to influx in net position.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

As of the end of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$449.1 million. Of this amount, \$3.8 million has been categorized as nonspendable which includes permanent funds and healthcare deposits. Another \$102.5 million was restricted because the funds include grants or bonded projects that are controlled by external sources. Also, \$115.0 million has been committed for specific purposes such as stabilization funds, health claims trust fund, parking fund, etc., for which the movement of these funds must be approved by the highest legislative level at the City, which is the City Council. Finally, \$12.2 million has been assigned for encumbrance balances. The remainder of the Fund balance of \$215.8 million is considered "Unassigned".

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2016

(Unaudited)

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance was \$215.8 million, while the total fund balance was \$300.9 million.

As a measure of liquidity, it may be useful to compare both unassigned and total fund balances to total fund expenditures. Unassigned fund balance represents 40.6% of total General Fund expenditures, while the total balance represents 56.6% of that same amount.

The capital fund captures all the capital projects expenditures for the City. At the end of fiscal year 2016, the total fund balance was \$82.5 million. This reflects a slight increase over the prior fiscal year of \$4.2 million.

The affordable housing trust fund is the fund that captures all the affordable housing project expenditures for the City. At the end of fiscal year 2016, the total fund balance was \$29.2 million. This fund was established in the 1990's to provide funding for housing projects to increase the supply of affordable housing units for the City.

Proprietary Fund

The City's Proprietary Fund provides the same type of information found in the government-wide statements, but in more detail.

Net position of the Water Fund at the end of the year consisted of unrestricted net position of \$18.0 million and a net investment in capital assets of \$120.2 million.

General Fund Budgetary Highlights

The City submits its budget to the City Council in April and six months later sets the tax rate at the Massachusetts Department of Revenue. During this process, the City reviews and revises its revenue and expenditure plan for final adoption before setting the tax rate. The following are some of the major changes:

1. Cherry sheet revenues and expenditures are estimated in the original budget based upon previous year's cherry sheet revenues and adjusted, if needed, for the final budget.
2. Certain other revenues were adjusted based upon the previous year's actual and slightly increased estimates this year.

The following information pertains to the revenues and expenditures of the general fund. This data is included in the Schedule of Revenues and Expenditures-Budgetary Basis, which presents financial information on the budgetary basis of accounting.

Revenues and Other Financing Sources

Fiscal year 2016 actual revenues on a budgetary basis totaled \$529.0 million. This represents an increase of \$8.1 million or 1.6% from fiscal year 2015. Property taxes are the single largest revenue source, representing approximately 66.1% of general fund revenues, net of abatements. Sewer use receipts comprise the City's next largest revenue source, representing 9.2%. Other Income was significantly higher than budget \$32.1 million because of building permits (\$18.0 million) and mitigation (\$4.9 million) receipts received through the general fund.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Expenditures

During fiscal year 2016, total expenditures increased by \$22.8 million or 4.4% on a budgetary basis as compared to fiscal year 2015 at \$493.3 million which was mainly due to 2.4% cost of living increase and 5.85% increase related to pensions.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, the City's capital assets of its governmental activities and business-type activity amounted to \$1.2 billion (net of depreciation). The City's capital assets include land, buildings, improvements, machinery and equipment, open space, road and highways.

Some of the major capital asset events during the current fiscal year included several ongoing sewer separation projects scattered throughout the City, which are funded through bonds and state grants, completion of park improvements and City building renovations.

Additional information on the City's capital assets can be found in note 5.

Debt

At year-end, the City had \$438.6 million in outstanding bonds and notes compared to \$434.2 million last year.

	Governmental activities		Business-type activity		Totals	
	2016	2015	2016	2015	2016	2015
	(In millions)					
General obligation bonds and notes payable \$	430.9	423.9	7.7	10.3	438.6	434.2

The City maintains bond ratings with Fitch Ratings of AAA, Moody's Investors Service Inc. of Aaa, and Standard & Poor's Corporation of AAA.

Additional information on the City's debt can be found in note 8.

Economic Factors and Next Year's Budgets and Rates

The City's tax levy increased \$18 million, or 5.5%, to \$372.7 million in fiscal year 2017. Despite this increase, the City's excess tax capacity, an extremely important indication of the City's financial health, increased from \$155.0 million in FY 16 to \$168.3 million in FY 17, a 13.3% increase.

The FY 17 operating budget increased by 4.8% over the FY 16 adjusted budget. The increase is attributable to a 2.0% increase of employee salary costs and a 5.85% increase in employee pension costs. The capital budget of \$83.9 million is a slight decrease from prior year based upon the Five-Year Public Investment Plan.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2016

(Unaudited)

New Accounting Standards

The GASB has issued Statement No. 72, *Fair Value Measurement and Application*. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

Future Pronouncements

The GASB has issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also makes amendments to certain pronouncements of Statements No. 67 and No. 68. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015. The requirements for defined benefit pensions not within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2016.

The GASB has issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

The GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended*, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement is effective for fiscal years beginning after June 15, 2017.

The GASB has issued Statement No. 77, *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present related to tax abatements. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to: City of Cambridge, Attn: City Auditor, 795 Massachusetts Avenue, Cambridge, MA 02139-3219.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Net Position

June 30, 2016

Assets and Deferred Outflows of Resources	Primary government			Component unit
	Governmental activities	Business-type activity	Total	
Cash and investments	\$ 475,681,225	11,167,249	486,848,474	244,106,125
Cash and investments held by trustees	600,000	—	600,000	8,563,579
Receivables, net:				
Property taxes	5,495,339	—	5,495,339	—
Motor vehicle excise	1,092,018	—	1,092,018	—
Tax title and possessions	2,905,891	—	2,905,891	—
Intergovernmental	21,629,196	—	21,629,196	—
Other	20,988,921	7,556,290	28,545,211	34,883,024
Other assets	1,616,290	—	1,616,290	90,595,497
Internal balances	(32,723)	32,723	—	—
Due from component unit	2,995,000	—	2,995,000	—
Capital assets:				
Nondepreciable	559,803,607	48,411,230	608,214,837	14,564,112
Depreciable, net	501,545,325	81,247,215	582,792,540	122,453,332
Total assets	1,594,320,089	148,414,707	1,742,734,796	515,165,669
Deferred outflows of resources:				
Related to debt refundings	5,921,772	98,104	6,019,876	—
Related to pensions	95,634,880	—	95,634,880	21,533,638
Total assets and deferred outflows of resources	\$ 1,695,876,741	148,512,811	1,844,389,552	536,699,307
Liabilities and Deferred Inflows of Resources				
Warrants and accounts payable	\$ 25,987,037	502,850	26,489,887	24,422,646
Accrued liabilities:				
Tax abatements	4,080,000	—	4,080,000	—
Accrued payroll	16,213,668	66,954	16,280,622	15,318,001
Accrued interest	5,447,022	135,625	5,582,647	—
Other	3,033,287	—	3,033,287	20,136,495
Unearned revenue	—	—	—	841,784
Due to primary government	—	—	—	2,995,000
Long-term liabilities:				
Due within one year:				
Bonds and notes payable	45,217,966	2,420,000	47,637,966	66,435
Capital leases	—	—	—	1,780,141
Due to third parties	—	—	—	20,751,884
Compensated absences	7,197,000	237,000	7,434,000	15,164,575
Landfill	25,000	—	25,000	—
Judgments and claims	7,052,000	299,000	7,351,000	—
Due in more than one year:				
Bonds and notes payable	385,729,673	5,300,000	391,029,673	366,738
Capital leases	—	—	—	999,274
Due to third parties	—	—	—	20,063,766
Compensated absences	11,979,000	384,000	12,363,000	—
Landfill	100,000	—	100,000	—
Judgments and claims	8,713,000	1,000,000	9,713,000	—
Other postemployment benefit obligation	206,062,593	—	206,062,593	56,217,843
Pollution remediation	1,519,116	—	1,519,116	—
Net pension liability	212,198,096	—	212,198,096	49,772,900
Total liabilities	940,554,458	10,345,429	950,899,887	228,897,482
Deferred inflows of resources:				
Related to pensions	6,323,706	—	6,323,706	43,039
Total liabilities and deferred inflows of resources	\$ 946,878,164	10,345,429	957,223,593	228,940,521
Net Position				
Net investment in capital assets	\$ 673,717,401	120,185,083	793,902,484	130,809,856
Restricted for:				
Capital projects	51,038,318	—	51,038,318	—
Community preservation	12,328,565	—	12,328,565	—
Expendable permanent funds	1,626,539	—	1,626,539	—
Nonexpendable permanent funds	2,234,567	—	2,234,567	—
Specific purposes	5,521,860	—	5,521,860	—
Other purposes	600,000	—	600,000	4,280,270
Unrestricted	1,931,327	17,982,299	19,913,626	172,668,660
Total net position	\$ 748,998,577	138,167,382	887,165,959	307,758,786

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2016

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net position		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government		Component unit
					Governmental activities	Business-type activity	
Primary government:							
Governmental activities:							
General government	\$ 56,389,559	484,026	—	—	(55,905,533)	—	(55,905,533)
Public safety	134,762,503	58,678,631	—	—	(76,083,872)	—	(76,083,872)
Community maintenance and development	112,901,226	52,489,213	4,052,116	15,508,261	(40,851,636)	—	(40,851,636)
Human resource development	53,357,816	4,978,730	8,739,000	—	(39,640,086)	—	(39,640,086)
Education	228,453,104	1,782,008	11,735,296	—	(214,935,800)	—	(214,935,800)
Interest on long-term debt	10,938,908	—	—	—	(10,938,908)	—	(10,938,908)
Total governmental activities	596,803,116	118,412,608	24,526,412	15,508,261	(438,355,835)	—	(438,355,835)
Business-type activity:							
Water	14,228,525	19,288,216	—	—	—	5,059,691	5,059,691
Total business-type activity	14,228,525	19,288,216	—	—	—	5,059,691	5,059,691
Total primary government	\$ 611,031,641	137,700,824	24,526,412	15,508,261	(438,355,835)	5,059,691	(433,296,144)
Component unit:							
Cambridge Health Alliance	\$ 602,843,221	302,601,635	279,371,266	—	—	—	(20,870,320)
Total component units	\$ 602,843,221	302,601,635	279,371,266	—	—	—	(20,870,320)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 356,993,674	—	356,993,674
Excises					26,806,239	—	26,806,239
Payments in lieu of taxes					9,191,431	—	9,191,431
Grants and contributions not restricted					52,554,349	—	52,554,349
Investment income					3,256,036	256,700	3,512,736
Miscellaneous					31,296,358	—	31,296,358
Transfers					714,085	(714,085)	—
Total general revenues and transfers					480,812,172	(457,385)	480,354,787
Change in net position					42,456,337	4,602,306	47,058,643
Net position – beginning					706,542,240	133,565,076	840,107,316
Net position – ending					\$ 748,998,577	138,167,382	887,165,959

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2016

Assets	General	Capital fund	Affordable Housing Trust fund	Other governmental funds	Total governmental funds
Cash and investments	\$ 333,792,999	76,115,855	28,808,019	36,964,352	475,681,225
Cash and investments held by trustees	—	—	600,000	—	600,000
Receivables, net:					
Property taxes	5,495,339	—	—	—	5,495,339
Motor vehicle excise	1,092,018	—	—	—	1,092,018
Tax title and possessions	2,905,891	—	—	—	2,905,891
Intergovernmental	—	18,872,803	—	2,756,393	21,629,196
Departmental and other	18,124,911	—	2,550,638	313,372	20,988,921
Total receivables	27,618,159	18,872,803	2,550,638	3,069,765	52,111,365
Other assets					
Due from other funds	1,616,290	—	—	—	1,616,290
Due from component unit	—	569,969	—	—	569,969
Total assets	2,995,000	—	—	—	2,995,000
	<u>\$ 366,022,448</u>	<u>95,558,627</u>	<u>31,958,657</u>	<u>40,034,117</u>	<u>533,573,849</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 8,156,380	13,040,672	2,801,186	1,988,799	25,987,037
Accrued liabilities:					
Tax abatements	2,040,000	—	—	—	2,040,000
Judgments and claims	7,052,000	—	—	—	7,052,000
Accrued payroll	15,990,139	24,695	—	198,834	16,213,668
Other	2,435,200	—	—	598,087	3,033,287
Due to other funds	32,723	—	—	569,969	602,692
Total liabilities	35,706,442	13,065,367	2,801,186	3,355,689	54,928,684
Deferred inflows of resources:					
Unavailable revenue	29,371,614	—	—	102,646	29,474,260
Fund balances:					
Nonspendable	1,536,290	—	—	2,234,567	3,770,857
Restricted	—	82,493,260	600,000	19,374,318	102,467,578
Committed	71,455,514	—	28,557,471	14,966,897	114,979,882
Assigned	12,180,000	—	—	—	12,180,000
Unassigned	215,772,588	—	—	—	215,772,588
Total fund balances	300,944,392	82,493,260	29,157,471	36,575,782	449,170,905
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 366,022,448</u>	<u>95,558,627</u>	<u>31,958,657</u>	<u>40,034,117</u>	<u>533,573,849</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

**Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position**

June 30, 2016

Total fund balance – governmental funds	\$ 449,170,905
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	1,061,348,932
Adjust deferred inflows of resources to record revenues on an accrual basis	29,474,260
Capitalized loss on debt refunding in the government-wide statements that is not capitalized in the governmental funds	5,921,772
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds, net	430,947,639
Accrued interest on bonds	5,447,022
Compensated absences	19,176,000
Landfill	125,000
Judgments and claims	8,713,000
Tax abatements	2,040,000
Other postemployment benefits	206,062,593
Pollution remediation	1,519,116
Net pension liability, net of deferred amounts	122,886,922
	<u>796,917,292</u>
Net position of governmental activities	\$ <u><u>748,998,577</u></u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds

Year ended June 30, 2016

	General	Capital fund	Affordable Housing Trust fund	Other governmental funds	Total governmental funds
Revenues:					
Real and personal property taxes	\$ 356,247,426	—	—	—	356,247,426
Excises:					
Hotel/motel/meals	19,212,693	—	—	—	19,212,693
Motor vehicles	7,452,353	—	—	—	7,452,353
Payments in lieu of taxes	9,191,431	—	—	—	9,191,431
Intergovernmental	52,554,348	15,508,261	—	24,526,412	92,589,021
Investment income	3,274,185	66,692	—	216,762	3,557,639
Sewer use charges	48,818,911	—	—	—	48,818,911
Departmental and other	63,946,843	633,107	1,342,536	32,889,486	98,811,972
Total revenues	560,698,190	16,208,060	1,342,536	57,632,660	635,881,446
Expenditures:					
Current:					
General government	38,656,029	—	—	305,446	38,961,475
Public safety	116,755,958	—	—	965,588	117,721,546
Community maintenance and development	46,667,597	—	21,304,710	4,324,632	72,296,939
Human resource development	36,154,723	—	—	7,956,298	44,111,021
Education	183,323,948	—	—	14,155,888	197,479,836
Judgments and claims	2,714,745	—	—	—	2,714,745
State and district assessments	52,023,584	—	—	—	52,023,584
Capital outlays	—	90,386,126	—	—	90,386,126
Debt service	54,814,116	—	—	—	54,814,116
Total expenditures	531,110,700	90,386,126	21,304,710	27,707,852	670,509,388
Excess (deficiency) of revenues over expenditures	29,587,490	(74,178,066)	(19,962,174)	29,924,808	(34,627,942)
Other financing sources (uses):					
Premium on debt issuance	3,518,738	—	—	—	3,518,738
Issuance of debt	—	48,990,000	—	—	48,990,000
Transfers in	20,900,815	29,373,898	9,360,000	1,008,005	60,642,718
Transfers out	(28,810,440)	—	—	(31,118,193)	(59,928,633)
Total other financing (uses) sources	(4,390,887)	78,363,898	9,360,000	(30,110,188)	53,222,823
Net change in fund balances	25,196,603	4,185,832	(10,602,174)	(185,380)	18,594,881
Fund balance – beginning	275,747,789	78,307,428	39,759,645	36,761,162	430,576,024
Fund balance – ending	\$ 300,944,392	82,493,260	29,157,471	36,575,782	449,170,905

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended June 30, 2016

Net change in fund balances – total governmental funds	\$ 18,594,881
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital outlays, applicable to capital assets, (\$90,735,725) exceeded depreciation expense (\$28,576,794)	62,158,931
Revenues are recorded on an accrual basis	2,663,922
Proceeds of long-term debt (\$48,990,000) increase long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Repayment of bond principal, including amounts to defease long-term debt, (\$42,750,055) is an expenditure the governmental funds, but reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded payments.	(6,239,945)
Premiums received are revenues in the governmental funds, but are increases to long-term liabilities, net of amortization, in the statement of net position	(842,298)
Deferred loss on refunding is amortized in the statement of activities and is not reported in the governmental funds	(685,031)
Other postemployment benefits expense reported in the statement of activities does require the use of current financial resources, and therefore, is not reported as an expenditure in the governmental funds	(23,094,871)
Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in the governmental funds. This amount represents the decrease in landfill liabilities (\$25,000), pollution remediation (\$2,239,040) and non current claims (\$3,927) offset by pension costs (\$11,870,130), accrued interest (\$394,089) and compensated absences (\$103,000)	(10,099,252)
Change in net position of governmental activities	<u>\$ 42,456,337</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Net Position – Proprietary Fund

June 30, 2016

	<u>Enterprise fund Water fund</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 11,167,249
Receivables, net	7,556,290
Due from other funds	32,723
Total current assets	<u>18,756,262</u>
Noncurrent assets:	
Capital assets:	
Nondepreciable	48,411,230
Depreciable, net	81,247,215
Total noncurrent assets	<u>129,658,445</u>
Total assets	148,414,707
Deferred outflows of resources:	
Related to debt refundings	98,104
Total assets and deferred outflows of resources	<u>\$ 148,512,811</u>
Liabilities:	
Current liabilities:	
Warrants and accounts payable	\$ 502,850
Accrued liabilities:	
Claims	299,000
Compensated absences	237,000
Accrued payroll	66,954
Interest	135,625
Current portion of long-term debt	2,420,000
Total current liabilities	<u>3,661,429</u>
Noncurrent liabilities:	
Bonds payable	5,300,000
Accrued liabilities:	
Claims	1,000,000
Compensated absences	384,000
Total noncurrent liabilities	<u>6,684,000</u>
Total liabilities	<u>\$ 10,345,429</u>
Net position:	
Net investment in capital assets	\$ 120,185,083
Unrestricted	17,982,299
Total net position	<u>\$ 138,167,382</u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund

Year ended June 30, 2016

	Enterprise fund Water fund
Operating revenues:	
Charges for services	\$ 19,288,216
Total operating revenues	<u>19,288,216</u>
Administration	3,526,978
Service and support programs	6,894,733
Depreciation	<u>3,499,987</u>
Total operating expenses	<u>13,921,698</u>
Operating income	<u>5,366,518</u>
Nonoperating revenue (expense):	
Investment earnings – other	256,700
Interest expense	<u>(306,827)</u>
Nonoperating expense	<u>(50,127)</u>
Income before transfers	5,316,391
Transfers to other funds	<u>(714,085)</u>
Change in net position	4,602,306
Total net position – beginning	<u>133,565,076</u>
Total net position – ending	\$ <u><u>138,167,382</u></u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Cash Flows – Proprietary Fund

Year ended June 30, 2016

	Enterprise fund <u>Water fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 17,565,735
Cash paid to vendors	(6,942,000)
Cash paid to employees	<u>(3,685,186)</u>
Net cash provided by operating activities	<u>6,938,549</u>
Cash flows from noncapital financing activities:	
Transfers	<u>(714,085)</u>
Net cash used in noncapital financing activities	<u>(714,085)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(2,842,192)
Interest paid on debt	(544,614)
Repayment of long-term debt	<u>(2,420,000)</u>
Net cash used in capital and related financing activities	<u>(5,806,806)</u>
Cash flows from investing activities:	
Investment income	<u>256,700</u>
Net cash provided by investing activities	<u>256,700</u>
Increase in cash and cash equivalents	674,358
Cash and cash equivalents, beginning of year	<u>10,492,891</u>
Cash and cash equivalents, end of year	\$ <u><u>11,167,249</u></u>
Reconciliation of operating income to cash provided by operating activities:	
Operating income	\$ 5,366,518
Reconciliation of operating income to net cash provided by operating activities:	
Depreciation	3,499,987
Amortization of deferred loss on refunding	98,104
Changes in operating assets and liabilities:	
Accounts receivable	(1,722,481)
Other liabilities	<u>(303,579)</u>
Net cash provided by operating activities	\$ <u><u>6,938,549</u></u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Fiduciary Net Position

June 30, 2016

Assets	Employee retirement plan (as of December 31, 2015)	OPEB Trust fund	Agency funds
Cash and cash equivalents	\$ 9,380,833	1,550,668	6,721,780
Dividend and interest receivable	1,630,278	—	—
Contributions receivable:			
City of Cambridge	5,992,225	—	—
Cambridge Health Alliance	2,857,643	—	—
Other	530,410	—	—
Other assets	1,474,744	—	—
Investments, at fair value:			
Fixed income securities	104,813,271	4,638,434	—
Equities	304,110,955	4,158,527	—
Pooled investments:			
Fixed income	68,536,410	—	—
Real estate	120,129,183	—	—
Domestic equities	130,487,896	—	—
International equities	168,100,549	—	—
International fixed income	46,482,473	—	—
Alternative	121,105,588	—	—
Total investments	1,063,766,325	8,796,961	—
Cash collateral on security lending	48,266,529	—	—
Total assets	<u>1,133,898,987</u>	<u>10,347,629</u>	<u>6,721,780</u>
Liabilities			
Accrued liabilities	760,712	—	—
Guarantee deposits	—	—	6,721,780
Due to brokers for securities purchased	372,953	—	—
Cash collateral on security lending	48,266,529	—	—
Total liabilities	<u>49,400,194</u>	<u>—</u>	<u>6,721,780</u>
Held in trust for pension benefits and other purposes	<u>\$ 1,084,498,793</u>	<u>10,347,629</u>	

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2016

	Employee retirement plan (as of December 31, 2015)	OPEB Trust fund
Additions:		
Contributions:		
Employers	\$ 33,154,579	2,000,000
Nonemployer – City	4,696,570	—
Plan members	21,167,434	—
Other systems	2,472,877	—
Commonwealth of Massachusetts	618,628	—
Total contributions	<u>62,110,088</u>	<u>2,000,000</u>
Investment earnings:		
Interest and dividends	21,112,610	291,854
Securities lending income	552,004	—
Net appreciation (depreciation) in the fair value of investments	(21,485,696)	364,069
Less:		
Management fees	(6,579,862)	(19,381)
Borrower rebates and fees under securities lending program	<u>(288,050)</u>	<u>—</u>
Net investment earnings	<u>(6,688,994)</u>	<u>636,542</u>
Total additions	<u>55,421,094</u>	<u>2,636,542</u>
Deductions:		
Benefits	66,587,426	—
Refunds of contributions	2,913,807	—
Other systems	2,971,759	—
Administrative expenses	<u>1,076,459</u>	<u>—</u>
Total deductions	<u>73,549,451</u>	<u>—</u>
Change in net position	(18,128,357)	2,636,542
Net position, beginning of year	<u>1,102,627,150</u>	<u>7,711,087</u>
Net position, end of year	<u><u>\$ 1,084,498,793</u></u>	<u><u>10,347,629</u></u>

See accompanying notes to basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(1) The Financial Reporting Entity

(a) *Primary Government*

Settled in 1630 by a group from the Massachusetts Bay Company, the City of Cambridge (the City) was incorporated as a town in 1636 and became a city in 1846. Since 1940, the City has operated under a Council Manager form of government. The legislative body of the City is the City Council, consisting of nine members elected at-large every two years; the Mayor and Vice Mayor are elected by the Council from among its members for a two-year term. Executive authority resides with the City Manager, who is appointed by the Council and is responsible for the delivery of services to City residents.

The Mayor also serves as Chair of the School Committee. The School Committee, whose members are elected, has full authority for operations of the school system and appoints a superintendent to administer the system's day-to-day operations.

The accompanying basic financial statements present the City of Cambridge and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

(b) *Retirement System*

The Cambridge Retirement System (the System) is a defined benefit contributory retirement system created under State statute. It is administered by a Retirement Board comprised of five members: the City Auditor who serves as *ex officio*; two individuals elected by participants in the System; a fourth member appointed by the City Manager and a fifth member chosen by the other members of the Retirement Board. The System provides pension benefits to retired City, Cambridge Housing Authority, Cambridge Redevelopment Authority and Cambridge Health Alliance employees. Although legally separate, the System provides services entirely or almost entirely to the City and thus has been reported as if it were part of the primary government; a method of inclusion known as blending.

The System is on a calendar fiscal year. As a result, the financial information of the System is as of and for the year ended December 31, 2015. The System does not issue stand alone financial statements. The System is included in the City's fiduciary fund financial statements.

(c) *Discretely Presented Component Unit*

The Cambridge Health Alliance (CHA) is reported in a separate column to emphasize that it is legally separate from the City, but is included because the City is financially accountable for, is able to impose its will on the organization, and is responsible for the appointment of the hospital's board of trustees. Unless otherwise indicated, the notes to the basic financial statements pertain only to the primary government because certain disclosures of the component unit are not significant relative to the primary government. CHA is a body politic and corporate and public instrumentality of the Commonwealth of Massachusetts (the Commonwealth) established by Chapter 147 of the Acts of 1996. CHA is governed by a nineteen member board, all of whom are appointed by the City Manager. CHA is responsible for the implementation of public health programs in the City.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

Complete financial statements for the CHA for its fiscal year ended June 30, 2016 are available from its offices on 350 Main St, Suite 31, Malden, Massachusetts 02148.

(d) Related Organizations

The Manager is also responsible for appointing four of five board members to the Cambridge Housing Authority, subject to confirmation by the Council. However, the City's accountability for this organization does not extend beyond making these appointments.

(2) Summary of Significant Accounting Policies

The following is a summary of the more significant policies followed by the City:

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its discretely presented component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities* that rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the individual enterprise fund are reported as separate columns in the fund financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis of accounting*, as are the proprietary fund and Nonagency fiduciary fund financial statements. The agency fund has no basis of accounting and only reports assets and liabilities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurements focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are “susceptible to accrual” (i.e., both measurable and available). Revenues not considered to be available are recorded as deferred inflows of resources.

The City applies the susceptible to accrual criteria to property and other taxes intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized as expenditures are incurred subject to availability requirements. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth.

Property taxes and other taxes are recorded as revenue in the year for which the taxes have been levied, provided they are collected within 60 days after year-end. Generally, intergovernmental revenues are recognized as revenue provided they are earned during the year and collected within one year after year-end, except Chapter 90 receivables which are considered available when received. Investment income is recorded as earned. Other revenues are recorded when received in cash because they are generally not measurable until actually received.

Expenditures generally are recorded when a liability is incurred. However, interest on general obligation debt as well as expenditures related to liabilities including compensated absences, other postemployment benefits, judgments and claims and tax abatements are recorded only when payment is mature and due.

Proprietary Fund Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for water service. Operating expenses for the enterprise fund include the cost of preparing and delivering the water, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Funds – The City reports the following major governmental funds:

The *general fund* is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

The *affordable housing trust fund* accounts for financial resources to be used for the acquisition or construction of affordable housing units.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

Proprietary Fund – The City reports the following major proprietary fund:

The *water fund* accounts for activities related to the preparation and delivery of water to City residents.

Fiduciary Funds – Additionally, the City reports the following fiduciary fund types:

The *pension trust fund* accounts principally for the activities of the System, which accumulates resources for pension benefit payments to retired City employees.

The *OPEB trust fund* is an irrevocable trust fund established for other postemployment benefits. The assets are appropriated from the General Fund and accumulate to reduce the unfunded actuarial liability of health care and other postemployment benefits. This fund is currently not used for payments of benefits.

The *agency fund* is used to account for assets received and distributed by the City acting in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and for other funds.

(c) *Cash Equivalents*

For purposes of the statement of cash flows, investments with original maturities of three months or less when purchased are considered to be cash equivalents.

(d) *Basis of Investment Valuation*

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of the System, which are described in note 9. Further, income from investments is recognized in the same fund as the related investments.

(e) *Interfund Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activity are reported in the government-wide financial statements as “internal balances.”

(f) *Uncollectible Tax and Other Receivables*

All receivables are shown net of an allowance for uncollectibles. Amounts considered to be uncollectible are based on the type and age of the related receivable.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(g) *Deferred Inflows and Outflows of Resources*

The City accounts for certain transactions that result in the consumption or acquisition of resources in one period that are applicable to future periods as deferred outflows and inflows of resources, respectively, to distinguish them from assets and liabilities. For fiscal year 2016, the City has reported deferred outflows pertaining to its debt refunding and pension transactions in the government-wide statements and a deferred inflow related to pension transactions in the government-wide statements and related to unavailable revenue in the governmental fund statements.

(h) *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20–40
Infrastructure	15–50
Furniture and equipment	5–15

(i) *Compensated Absences*

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The cost of compensated absences for employees is recorded as earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if it has matured (i.e., come due for payment). The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method).

(j) *Long-Term Obligations and Related Costs*

Premiums, discounts, and issue costs – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activity, or proprietary fund type statement of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight line method. Issue costs, other than prepaid insurance, if any, are expensed as incurred.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and bond issuance costs in the operating statement, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as general government expenditures.

(k) *Net Position and Fund Balance*

In the Government-wide and Proprietary Fund Financial Statements, net position is reported in the following categories:

Net investment in capital assets: Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted: Net position the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation. Nonexpendable amounts are required to remain intact under such constraints.

Unrestricted: Remaining net position not considered invested in capital assets, net of related debt or restricted.

For purposes of net position classification, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

In the Governmental Fund Financial Statements, fund balance is reported in the following categories:

Nonspendable: Amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact.

Restricted: Amounts the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the City, this formal action takes the form of statutes which are passed by the City Council and approved by the Mayor.

Assigned: Amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted or committed.

Unassigned: Amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City.

The flow of expenditures for unrestricted resources is to use the committed when possible first, then assigned and then the unassigned when needed.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

The Unassigned Fund balance policy adopted by the City Council is as follows:

- General Fund (GAAP) balance as of June 30 of each year is equal to or greater than 15% of the ensuing fiscal year's operating revenue.

The responsibility for tracking this policy is with the City Treasurer who estimates the surplus or deficit for the current year and prepares a projection for the year-end unassigned general fund balance. Any anticipated balance in excess of the targeted maximum unassigned balance maybe budgeted to reduce the ensuing year's property tax levy, transferred to stabilization fund, or fund one-time capital projects.

This policy is reviewed annually during the City's Annual Budget and Public Investment Program process.

(l) *Securities Lending Transactions*

Collateral received on securities lending transactions is reported as an asset with a corresponding liability to the borrower. The underlying securities lent to the borrower under these transactions are reported as investments. Borrower rebates and administrative fees are reported as expenses; interest and dividends on the underlying securities and related collateral are reported as revenues.

(m) *Landfill Postclosure Care Costs*

State and federal regulations required the City to place a final cover on its Danehy Park landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2016, 100% of the landfill site had been used and has not accepted solid waste for several years. The City has completed the covering of this site in accordance with applicable laws and regulations.

The liability for postclosure care is estimated based on current costs to perform certain maintenance and monitoring over the next twenty years. This estimate is subject to change due to inflation, deflation, technology or applicable laws, and regulations. The total liability is reported in the statement of net position.

(n) *Use of Estimates*

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

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(o) Adoption of New Accounting Pronouncements

The City, including its OPEB Trust, adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. The scope of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The City, including its OPEB Trust, has incorporated the required disclosures about fair value measurements, but adoption of the statement did not impact financial statement amounts. The System elected not to adopt GASB 72 as the Statement is effective for periods beginning after June 15, 2015.

(3) Deposits and Investments

(a) Deposits

State and local statutes place certain limitations on the nature of deposits and investments available to the City. The City's policy requires full collateralization on all demand deposit accounts including checking accounts, certificates of deposit and money market accounts.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. As of June 30, 2016, the bank balances of uninsured and uncollateralized deposits are as follows:

Primary government	\$	11,337
Discretely presented component unit (CHA)		<u>16,403,295</u>
	\$	<u><u>16,414,632</u></u>

(b) Investments

The City's investment program is operated by the City Treasurer in conformance with all applicable federal and state requirements, including MGL c. 44, Sections 54 and 55. The objective is to obtain a high level of income while also following the principles of security, liquidity, and yield.

Investments of General Fund available cash balances consist of fully collateralized certificates of deposit with local banking institutions for duration of 6-9 months and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, an external investment pool for cities, towns, and other state and local agencies with the Commonwealth. MMDT meets the criteria established by GASB 79 to report its investments at amortized cost; therefore the City reports its investment in MMDT at amortized cost which approximates the net asset value of \$1.00 per share. MMDT has a maturity of less than 1 year and is not rated.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

The City's investment portfolio for permanent trust funds is designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the City's liquidity requirements. The portfolio is managed with the objective of exceeding the average of three-month U.S. Treasury Bill rates for the equivalent period. The investments for trust funds include collateralized certificate of deposits, U.S. Government Agencies, and units in the MMDT for durations between 12-48 months.

The City's pension system and OPEB irrevocable trust fund have additional investment powers, most notably the ability to invest in common stocks, corporate bonds, and other specified investments.

(i) System Investment Policy

The provisions of Massachusetts General Laws (M.G.L.) c. 32, sec 3(2) govern the System's investment practice.

Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec 23(3), the "Prudent Person" rule.

The System has retained an investment consultant to work with the Retirement Board in a fiduciary capacity to assure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

(ii) OPEB Investment Policy

The provisions of Massachusetts General Laws (M.G.L.) c. 44 sec 54 allows investment in securities listed on the Commonwealth's approved securities listing. The OPEB investment portfolio is managed by the City's Investment committee. The portfolio consists of 43% equities (securities from approved state listing) and 57% fixed securities and certificates of deposit.

(iii) Interest Rate Risk

The following is a listing of the primary government's fixed income investments and related maturity schedule (in years) as of June 30, 2016:

Investment type	Fair value	Less than 1	1-5	6-10	More than 10
City:					
Money market/MMDT	\$ 265,007,619	265,007,619	—	—	—
Certificates of deposit	73,000,611	61,810,464	9,018,322	1,487,836	683,989
Corporate fixed income	38,693,524	—	23,498,439	12,532,528	2,662,557
U.S. agencies	17,806,036	—	12,641,262	4,564,316	600,458
Subtotal city	394,507,790	326,818,083	45,158,023	18,584,680	3,947,004

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

Investment type	Fair value	Less than 1	1–5	6–10	More than 10
System (as of December 31, 2015):					
Cash collateral pool	\$ 48,266,529	48,266,529	—	—	—
U.S. treasury notes and bonds	16,366,236	—	11,143,939	953,394	4,268,903
U.S. agencies	4,480,732	—	—	377,013	4,103,719
Domestic corporate	72,197,738	237,503	23,855,794	38,680,470	9,423,971
Asset-backed:					
CMOs	6,496,622	—	—	—	6,496,622
Other	5,271,943	203,914	3,827,332	852,450	388,247
Pooled fixed-income investments	115,018,883	115,018,883	—	—	—
Subtotal system	268,098,683	163,726,829	38,827,065	40,863,327	24,681,462
OPEB Trust:					
Money market	38,726	38,726	—	—	—
Certificates of deposit	1,511,942	—	1,013,128	253,466	245,348
Corporate fixed income	4,228,367	416,594	2,416,123	726,037	669,613
U.S. agencies	410,067	—	410,067	—	—
Subtotal OPEB Trust	6,189,102	455,320	3,839,318	979,503	914,961
Total	\$ 668,795,575	491,000,232	87,824,406	60,427,510	29,543,427
Discretely presented component unit (CHA):					
Money market	\$ 119,325,722	119,325,722	—	—	—
MMDT	118,213,670	118,213,670	—	—	—
Total discretely presented component unit (CHA)	\$ 237,539,392	237,539,392	—	—	—

The City, OPEB Trust, and the System’s guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The manager of each fixed income portfolio is responsible for determining the maturity and commensurate returns of their portfolio.

The collateralized mortgage obligations (CMOs) held by the System are highly sensitive to changes in interest rates.

(iv) Credit Risk

The City, OPEB Trust, and the System allow investment managers to apply discretion under the “Prudent Person” rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

The primary government's fixed income investments as of June 30, 2016 were rated by Standard and Poor's and/or an equivalent national rating organization. The ratings are presented below using the Standard and Poor's rating scale:

Investment type	Carrying value	AAA	AA	A	BBB	BB	Less than BB	Not rated
City:								
Money market/MMDT	\$ 265,007,619	—	—	—	—	—	—	265,007,619
Certificates of deposit	73,000,611	—	—	—	—	—	—	73,000,611
Corporate fixed income	38,693,524	2,029,516	7,344,333	27,615,187	1,704,488	—	—	—
U.S. agencies	17,806,036	17,806,036	—	—	—	—	—	—
Subtotal City	394,507,790	19,835,552	7,344,333	27,615,187	1,704,488	—	—	338,008,230
System (as of December 31, 2015):								
Cash collateral pool	48,266,529	48,266,529	—	—	—	—	—	—
U.S. Treasury notes and bonds	16,366,236	14,449,830	1,619,777	296,629	—	—	—	—
U.S. agencies	4,480,732	—	—	—	—	—	—	4,480,732
Domestic corporate	72,197,738	741,339	1,265,725	7,879,345	15,140,839	24,023,571	22,545,645	601,274
Asset-backed:								
CMOs	6,496,622	1,599,779	1,489,817	2,358,158	—	409,217	—	639,651
Other	5,271,943	4,381,218	—	890,725	—	—	—	—
Pooled fixed-income investments	115,018,883	—	—	—	—	—	—	115,018,883
Subtotal system	268,098,683	69,438,695	4,375,319	11,424,857	15,140,839	24,432,788	22,545,645	120,740,540
OPEB Trust:								
Money market	38,726	—	—	—	—	—	—	38,726
Certificates of deposit	1,511,942	—	—	—	—	—	—	1,511,942
Corporate fixed income	4,228,367	437,860	1,106,369	1,941,460	742,678	—	—	—
U.S. agencies	410,067	410,067	—	—	—	—	—	—
Subtotal OPEB Trust	6,189,102	847,927	1,106,369	1,941,460	742,678	—	—	1,550,668
Total	\$ 668,795,575	90,122,174	12,826,021	40,981,504	17,588,005	24,432,788	22,545,645	460,299,438
Discretely presented component unit (CHA):								
Money market	\$ 119,325,722	—	—	—	—	—	—	119,325,722
MMDT	118,213,670	—	—	—	—	—	—	118,213,670
Total discretely presented component unit (CHA)	\$ 237,539,392	—	—	—	—	—	—	237,539,392

(v) Concentration Risk

The City and OPEB Trust have no individual investments, at fair value, that exceed 5% of respective net positions as of June 30, 2016.

The System has no individual investments, at fair value, that exceed 5% of the System's net position held in trust for pension benefits as of December 31, 2015.

The System adheres to the provisions of M.G.L. c. 32, sec 23(2) when managing concentration risk.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(vi) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System's asset allocation model which serves as a proxy for a foreign currency policy, limits the amount of foreign currency exposure to 19% of the System's total investments. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies. Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2015, there were no open forward currency contracts.

Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented below.

Currency:

International equity pooled funds (various currencies)	\$ 168,100,549
International fixed income pooled funds (various currencies)	46,482,473
	<u>\$ 214,583,022</u>

Although these investments are not denominated in a foreign currency, the underlying securities are denominated in various foreign currencies.

(vii) Fair Value Hierarchy

The City and OPEB Trust categorize its fair value measurements within the fair value hierarchy established by GAAP. Fair value measurements are categorized based on the valuation inputs used to measure fair value: Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date; Level 2 inputs are other than quoted prices in Level 1 that are observable for the asset or liability, or similar assets or liabilities either directly or indirectly through corroboration with observable market data; Level 3 inputs are significant to the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Money market funds: Valued at the daily closing price as reported by the fund. Money market funds held by the City are open-end money market funds that are registered with the Securities and Exchange Commission. The money market funds held by the City and classified as Level 1 are deemed to be actively traded.

Equity securities: Consist primarily of corporate stocks traded on U.S. and non-U.S. active security exchanges. Stocks traded on active exchanges and valued at quoted market prices and documented trade history for identical assets are categorized within Level 1 or the fair value hierarchy. If market quotations are not readily available, the stocks may be valued using pricing models maximizing the use of observable inputs for similar securities and are classified as Level 2.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

U.S. agencies: Securities issued by the U.S. government, its agencies, authorities and instrumentalities are valued using quoted prices, documented trade history in the security, and pricing models maximizing the use of observable inputs determined by investment managers.

Corporate fixed incomes: Valued either by using pricing models maximizing the use of observable inputs for similar securities or valued by the investment manager.

Investments	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total
Money market funds	\$ 224,411	—	—	224,411
Equity Securities	4,158,527	—	—	4,158,527
US Agency securities	18,216,103	—	—	18,216,103
Corporate fixed income	—	42,921,891	—	42,921,891
Total				
investments \$	<u>22,599,041</u>	<u>42,921,891</u>	<u>—</u>	<u>65,520,932</u>

CHA has Level 1 inputs of money market funds valued using quoted market price of \$119,325,722 as of June 30, 2016.

(4) Property Taxes

Real and personal property taxes are based on values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances.

The City bills and collects its property taxes on a semiannual basis following the January 1 assessment. The due dates for those tax billings are November 1 and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

A statewide property tax limitation known as "Proposition 2 ½" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2 ½ limits the total levy to an amount not greater than 2 ½% of the total assessed value of all taxable property within the City. Secondly, the tax levy cannot increase by more than 2 ½% of the prior year's levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2 ½ can be overridden by a Citywide referendum.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(5) Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

Primary Government

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 165,407,775	—	—	165,407,775
Construction in progress	<u>347,186,581</u>	<u>87,941,392</u>	<u>(40,732,141)</u>	<u>394,395,832</u>
Total capital assets not being depreciated	<u>512,594,356</u>	<u>87,941,392</u>	<u>(40,732,141)</u>	<u>559,803,607</u>
Capital assets being depreciated:				
Buildings and improvements	428,055,867	33,073,629	—	461,129,496
Improvements – nonbuilding	101,698,661	776,126	—	102,474,787
Furniture and equipment	83,580,584	5,713,244	—	89,293,828
Infrastructure	<u>311,988,916</u>	<u>3,963,476</u>	<u>—</u>	<u>315,952,392</u>
Total capital assets being depreciated	<u>925,324,028</u>	<u>43,526,475</u>	<u>—</u>	<u>968,850,503</u>
Less accumulated depreciation for:				
Buildings and improvements	(150,439,989)	(11,747,566)	—	(162,187,555)
Improvements – nonbuilding	(35,618,915)	(4,021,551)	—	(39,640,466)
Furniture and equipment	(55,289,344)	(4,717,119)	—	(60,006,463)
Infrastructure	<u>(197,380,136)</u>	<u>(8,090,558)</u>	<u>—</u>	<u>(205,470,694)</u>
Total accumulated depreciation	<u>(438,728,384)</u>	<u>(28,576,794)</u>	<u>—</u>	<u>(467,305,178)</u>
Total capital assets being depreciated, net	<u>486,595,644</u>	<u>14,949,681</u>	<u>—</u>	<u>501,545,325</u>
Governmental activities capital assets, net	<u>\$ 999,190,000</u>	<u>102,891,073</u>	<u>(40,732,141)</u>	<u>1,061,348,932</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 871,658
Public safety	4,582,751
Human resource development	2,429,309
Education	5,981,925
Community maintenance and development	14,711,151
Total depreciation expense – governmental activities	\$ 28,576,794

	Beginning balance	Increases	Decreases	Ending balance
Business-type activity:				
Capital assets not being depreciated:				
Land	\$ 39,764,325	75,438	—	39,839,763
Construction in progress	7,333,053	2,694,108	(1,455,694)	8,571,467
Total capital assets not being depreciated	47,097,378	2,769,546	(1,455,694)	48,411,230
Capital assets being depreciated:				
Buildings and improvements	81,252,878	1,223,591	—	82,476,469
Furniture and equipment	8,288,610	178,778	—	8,467,388
Infrastructure	41,796,023	125,971	—	41,921,994
Total capital assets being depreciated	131,337,511	1,528,340	—	132,865,851
Less accumulated depreciation for:				
Buildings and improvements	(28,239,050)	(2,120,336)	—	(30,359,386)
Furniture and equipment	(3,028,956)	(567,675)	—	(3,596,631)
Infrastructure	(16,850,643)	(811,976)	—	(17,662,619)
Total accumulated depreciation	(48,118,649)	(3,499,987)	—	(51,618,636)
Total capital assets being depreciated, net	83,218,862	(1,971,647)	—	81,247,215
Business-type activity capital assets, net	\$ 130,316,240	797,899	(1,455,694)	129,658,445

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(6) Receivables and Deferred Inflows of Resources

(a) Receivables

Receivables as of year end for the government's individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	Government funds					Enterprise fund
	General	Capital fund	Affordable Housing Trust fund	Other governmental funds	Total governmental funds	Water fund
Receivables:						
Property taxes	\$ 5,793,223	—	—	—	5,793,223	—
Motor vehicle taxes	3,814,107	—	—	—	3,814,107	—
Other taxes	3,228,768	—	—	—	3,228,768	—
Intergovernmental	—	21,442,318	—	2,756,393	24,198,711	—
Other	18,640,254	—	5,932,694	313,372	24,886,320	7,632,616
Gross receivables	31,476,352	21,442,318	5,932,694	3,069,765	61,921,129	7,632,616
Less allowance for uncollectibles	3,858,193	2,569,515	3,382,056	—	9,809,764	76,326
Net total receivables	\$ 27,618,159	18,872,803	2,550,638	3,069,765	52,111,365	7,556,290

(b) Deferred Inflows of Resources

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

	Unavailable
Delinquent taxes receivable (General Fund)	\$ 8,151,704
Other	21,322,556
Total unavailable for governmental funds	\$ 29,474,260

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(7) Receivable and Payable Balances between Funds and Component Unit

Individual fund receivable and payable balances at June 30, 2016, are as follows:

Interfund balances	Receivable	Payable
General fund – payable to water fund – for bond premium transfer	\$ —	32,723
Capital fund – receivable from other governmental funds – for capital items	569,969	—
Enterprise fund – receivable from general fund for bond premium	32,723	—
Other governmental funds – community development block grant payable to capital fund – for capital items	—	569,969
Balance at June 30, 2016	\$ <u>602,692</u>	<u>602,692</u>

Receivable and payable balances between the primary government and CHA at June 30, 2016 are as follows:

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 2,995,000	—
Discretely presented component unit:		
CHA	—	2,995,000
Balance at June 30, 2016	\$ <u>2,995,000</u>	<u>2,995,000</u>

In 1998, the City issued \$30 million of general obligation hospital bonds. The proceeds were provided to the CHA for the construction of an ambulatory care center. CHA has assumed responsibility for paying to the City an amount equal to the current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes. In 2007, the City refunded a portion of the original general obligation hospital bond. As of June 30, 2016, the amount outstanding on hospital related debt is \$2,995,000.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(8) Long-Term Obligations

Following is a summary of the governmental activities long-term obligations of the City as of June 30, 2016:

	Date of issue	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
General obligation bonds:							
General purpose, serial maturities through February 15, 2036	2/1/06 to 3/1/16	2.0%-5.0%	\$ 262,195,364	17,750,000	22,272,252	257,673,112	22,957,252
Urban redevelopment, serial maturities through February 15, 2025	2/1/06 to 3/1/16	2.0%-5.0%	20,980,000	4,500,000	3,005,000	22,475,000	3,225,000
Schools, serial maturities through February 1, 2018	2/1/2008	3.0%-3.25%	1,416,501	—	472,167	944,334	472,167
Sewer, serial maturities through February 15, 2025	2/1/06 to 3/1/16	2.0%-5.0%	106,530,043	26,740,000	14,902,579	118,367,464	16,453,417
Hospital, serial maturities through February 1, 2018	3/15/07	4.00%	4,495,000	—	1,500,000	2,995,000	1,500,000
Sub-total general obligation bonds			395,616,908	48,990,000	42,151,998	402,454,910	44,607,836
Notes payable:							
Note payable serial maturities through July 1, 2021	4/20/00 to 7/16/01	2.00%	3,542,451	—	598,057	2,944,394	610,130
Sub-total notes payable			3,542,451	—	598,057	2,944,394	610,130
Total governmental obligation bonds and notes payable			\$ 399,159,359	48,990,000	42,750,055	405,399,304	45,217,966
Add (deduct):							
Unamortized bond premium						25,548,335	
Current portion of long-term debt						(45,217,966)	
						\$ 385,729,673	
Other long-term obligations:							
Judgments and claims			\$ 15,363,206	44,232,929	43,831,135	15,765,000	7,052,000
Compensated absences			19,073,000	20,720,600	20,617,600	19,176,000	7,197,000
Landfill postclosure care costs			150,000	—	25,000	125,000	25,000
Other postemployment benefits			182,967,722	44,499,000	21,404,129	206,062,593	—
Net pension liability			121,984,750	90,213,346	—	212,198,096	—
Pollution remediation			3,758,156	445,000	2,684,040	1,519,116	—
Total other governmental long-term obligations			\$ 343,296,834	200,110,875	88,561,904	454,845,805	14,274,000

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

Following is a summary of the business-type activity long-term obligations of the City as of June 30, 2016:

	<u>Date of issue</u>	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
General obligation bonds:							
General purpose, serial maturities through August 1, 2019	3/15/07	4.0% -5.0%	\$ 10,140,000	—	2,420,000	7,720,000	2,420,000
Total business-type bonds payable			<u>\$ 10,140,000</u>	<u>—</u>	<u>2,420,000</u>	<u>7,720,000</u>	<u>2,420,000</u>
Add (deduct):							
Current portion of long-term debt						(2,420,000)	
						<u>\$ 5,300,000</u>	
Other long-term obligations:							
Judgments and claims			\$ 1,439,685	4,506,656	4,647,341	1,299,000	299,000
Compensated absences			<u>577,000</u>	<u>469,800</u>	<u>425,800</u>	<u>621,000</u>	<u>237,000</u>
Total other long-term obligations			<u>\$ 2,016,685</u>	<u>4,976,456</u>	<u>5,073,141</u>	<u>1,920,000</u>	<u>536,000</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

The payment of liabilities for judgments and claims, compensated absences, pollution remediation, other postemployment benefits, pension and landfill postclosure costs are primarily the responsibility of the City's general fund.

General obligation bonds are backed by the full faith and credit of the City. The annual debt service requirements of the City's general obligation governmental bonds and notes payable outstanding as of June 30, 2016, are as follows:

	Principal		Interest		Total	
	G/O bonds	Notes	G/O bonds	Notes	G/O bonds	Notes
Year ending June 30:						
2017	\$ 44,607,836	610,130	13,585,224	52,369	58,193,060	662,499
2018	42,693,335	622,445	12,322,430	40,053	55,015,765	662,498
2019	38,122,008	635,010	10,936,436	27,489	49,058,444	662,499
2020	37,519,884	592,525	9,620,128	14,765	47,140,012	607,290
2021	36,598,986	484,284	8,328,743	12,583	44,927,729	496,867
2022–2026	134,592,861	—	24,738,343	—	159,331,204	—
2027–2031	50,370,000	—	7,349,027	—	57,719,027	—
2032–2036	17,950,000	—	1,258,249	—	19,208,249	—
	<u>\$ 402,454,910</u>	<u>2,944,394</u>	<u>88,138,580</u>	<u>147,259</u>	<u>490,593,490</u>	<u>3,091,653</u>

The City has entered into loan agreements with the President and Fellows of Harvard College. The loans provide funding to further the development of affordable housing within the City. The notes carry interest at 2% per year for a period of twenty years with principal payments beginning in 2010. At June 30, 2016, the principal and interest amount outstanding is \$2,944,394 and \$147,259 respectively.

In March 2016, the City issued \$34,990,000 in general obligation bonds to fund various capital purchases and improvements throughout the City. Interest on general obligation bonds is due semiannually on each February 15 and August 15, the principal payments due each February 15 until maturity in fiscal 2036.

In February 2016 the City entered into loan agreements with the Massachusetts Clean Water Trust (MCWT) totaling \$14,000,000. Principal on the loans is due each January 15 until maturity in fiscal 2026 with a 2% interest rate. There are no subsidies associated with this agreement. The MCWT loans provide funding for sewer separation and drinking water projects. According to some of the loan agreements, the City will be subsidized on a periodic basis for debt and interest costs. The City received \$44,173 in subsidies during 2016 and expects to receive subsidies totaling \$311,083 through fiscal 2023. These loan payments commenced on February 1, 2005 and end on July 15, 2026, with interest rates ranging from 0% to 2.0%.

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the State Municipal Finance Oversight Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit, but are subject to other limitations.

As of June 30, 2016, the City may issue approximately \$852.3 billion additional general obligation debt under the normal debt limit. The City has approximately \$10.7 million of debt exempt from the debt limit.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

The annual debt service requirements of the City's water enterprise fund as of June 30, 2016 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2017	\$ 2,420,000	325,501	2,745,501
2018	2,420,000	204,501	2,624,501
2019	2,420,000	83,501	2,503,501
2020	460,000	11,501	471,501
	<u>\$ 7,720,000</u>	<u>625,004</u>	<u>8,345,004</u>

The City's commitments under operating leases are not significant.

(9) Retirement Plan-GASB 67

(a) Plan Description

The City of Cambridge Retirement System (the System) is a cost-sharing, multiple employer defined benefit pension plan administered by a Retirement Board comprised of five members: the City Auditor who serves as *ex officio*; two individuals elected by participants in the System; a fourth member appointed by the City Manager and a fifth member chosen by the other members of the Retirement Board. As of December 31, 2015, the System provides pension benefits to the retired employees of four employers: the City of Cambridge, Cambridge Housing Authority, Cambridge Redevelopment Authority and Cambridge Health Alliance.

The System is a member of the Massachusetts Contributory System, which is governed by Chapter 32 of the Massachusetts General Laws (MGL).

Employees covered by the Contributory Retirement Law are classified into one of four groups depending on job classification. Group 1 comprises most positions in state and local government. It is the general category of public employees. Group 4 comprises mainly police and firefighters. Group 2 is for other specified hazardous occupations.

For employees hired prior to April 2, 2012, the annual amount of the retirement allowance is based on the member's final three-year average salary multiplied by the number of years and full months of creditable service at the time of retirement and multiplied by a percentage based on the age of the member at retirement.

A members final three-year average salary is defined as the greater of the highest consecutive three-year average annual rate of regular compensation and the average annual rate of regular compensation received during the last three years of creditable service prior to retirement.

For employees hired on April 2, 2012 or later, the annual amount of the retirement allowance is based on the member's final five year average salary multiplied by the number of years and full months of creditable service at the retirement and multiplied by a percentage based on the age and years of creditable service of the member at retirement.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

A member's final five-year average salary is defined as the greater of the highest consecutive five-year average annual rate of regular compensation and the average annual rate of regular compensation received during the last five years of creditable service prior to retirement.

For employees who became members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a) (17). In addition, regular compensation for members who retire after April 2, 2012 will be limited to prohibit "spiking" a member's salary to increase the retirement benefit.

For all employees, the maximum annual amount of the retirement allowance is 80% of the member's final average salary. Any member who is a veteran also receives an additional yearly retirement allowance of \$15 per year of creditable service, not exceeding \$300. The veteran allowance is paid in addition to the 80% maximum.

(b) *Basis of Accounting*

The System's financial statements are prepared using the full accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a legal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated at fair value determined as follows:

- (i) Fixed income securities are stated at quoted market value.
- (ii) Equity securities are stated at quoted market value.
- (iii) Real estate funds are stated at partner's account value based upon the appraised value of the underlying investments.
- (iv) Venture capital funds are stated at fair value.
- (v) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (vi) Alternative investments are stated at partner's account or unit value.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(c) *Membership*

Membership in the System consisted of the following at December 31, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	\$	1,966
Terminated plan members entitled to, but not receiving benefits		812
Terminated plan members with a vested right to a deferred or immediate benefit		130
Active plan members		<u>3,145</u>
Total membership	\$	<u><u>6,053</u></u>
Total number of participating employers		4

(d) *Contributions*

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% to 9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's and CHA's actual contributions equaled their required contributions to the System for the years ended June 30, 2016 were \$28,665,468 and \$6,734,000, respectively.

The Commonwealth is obligated to reimburse the System for a portion of the benefits payments for cost of living increases granted before July 1998 and records any related liability in their financial statements.

(e) *Legally Required Reserve Accounts*

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2015 are as follows:

Description	Amount	Purpose
Annuity savings fund	\$ 248,198,263	Active members' contribution balance
Annuity reserve fund	67,820,462	Retired members' contribution account
Military service credit fund	4,602	Members' contribution account while on military leave
Pension reserve fund	754,265,914	Amounts appropriated to fund future retirement benefits
Pension fund	<u>14,209,552</u>	Remaining net position
	<u><u>\$ 1,084,498,793</u></u>	

All reserve accounts are funded at levels required by State statute.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(f) *Securities Lending*

The Public Employment Retirement Administration Commission of Massachusetts (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. These transactions are conducted by the System's custodian, which lends certain securities owned by the System to other broker dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

At the System's direction, the custodian lends the System's securities and receives cash (including both U.S. and foreign currency), U.S. government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2015. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2015, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers equaled or exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian for the year ended December 31, 2015 were \$288,050.

At December 31, 2015, the fair value of securities loaned by the System amounted to \$49,868,951 against which was held cash collateral of \$48,266,529.

For loans having collateral other than cash, the related collateral securities are not recorded as assets in the statement of fiduciary net position, and a corresponding liability is not recorded, since the System cannot pledge or sell the collateral securities except in the event of a borrower's default.

(g) *Administrative Costs*

The System's administrative costs are funded from investment earnings.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(h) *Net Pension Liability of Participating Employers*

The components of the net pension liability of the participating employers at December 31, 2015 was as follows:

Total pension liability	\$ 1,362,473,754
Fiduciary net position	<u>1,084,498,793</u>
System's net pension liability	<u>\$ 277,974,961</u>
Fiduciary net position as a percentage of the total pension liability	80.00%

(i) *Actuarial Assumptions*

The total pension liability for the December 31, 2015 measurement date was determined by using an actuarial valuation as of December 31, 2013, with update procedures used to roll forward the total pension liability to December 31, 2015. This measurement applied the following actuarial assumptions:

Inflation:	3.5%
Salary increases:	4.5%
Investment rate of return:	7.75%
Cost of living adjustments:	3% of first \$14,000
Pre-retirement mortality:	RP-2000 Employee Mortality Table projected generationally from 2009 using Scale BB2D
Healthy Retiree mortality:	RP-2000 Combined Healthy Annuitant Mortality Table projected generationally from 2009 using Scale BB2D
Disabled Retiree mortality:	RP-2000 Combined Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D

The inflation rate above was a reduction from 3.75% used in the measurement of the total pension liability as of December 31, 2014. The investment rate of return above was a reduction from 7.875% used in the measurement of the total pension liability as of December 31, 2014. The salary increases indicated above was a reduction from 4.75% to 4.5% used in the measurement of the total pension liability as of December 31, 2014. The pre-retirement mortality indicated above changed from RP-2000 Combined Healthy Mortality Table Projected 17 years with Scale AA to RP-2000 Employee Mortality Table projected generationally from 2009 using Scale BB2D, the Healthy Retiree Mortality changed from RP-2000 Combined Healthy Mortality Table projected 17 years with Scale AA to RP-2000 Combined Healthy Annuitant Mortality Table projected generationally from 2009 using Scale BB2D and the Disabled Retiree Mortality changes from RP-2000 Combined Healthy Mortality

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

Table set forward five years projected 17 years with Scale AA to RP-2000 Combined Healthy Annuitant Mortality Table projected generationally from 2015 using Scale BB2D.

The long-term expected rate of return on pension plan investments was using a building block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of December 31, 2015 is summarized below:

Asset class	Target asset allocation	Long-term expected real rate of return
Cash	0.13%	1.11%
Domestic equity	39.88	6.49
International developed markets equity	11.49	7.16
International emerging markets equity	4.15	9.46
Core fixed income	15.80	1.68
High yield fixed income	5.00	4.76
Real estate	10.35	4.37
Commodities	0.74	4.13
Hedge fund, GTAA, Risk parity	8.60	3.60
Private equity	3.85	11.04

(j) *Discount Rate*

The discount rate used to calculate the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at rates equal to the actuarially determined contribution rates. Based upon the assumptions, the 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.

(k) *Sensitivity of the Net Pension Liability to Changes in the Discount Rate*

The following presents the System's net pension liability calculated using the discount rate of 7.75% as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1% – point lower (6.75%) or 1% – point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
June 30, 2016	\$ 432,832,790	277,974,961	147,728,118

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(l) Annual Money Weighted Return

For the year ended December 31, 2015, the annual money weighted rate of return on plan investments, net of plan investment expense was (0.60)%. The money weighted rate of return expresses investment performance net of investment expenses adjusted for the changing amounts actually invested.

(10) City Net Pension Liabilities, Pension Expense and Deferred Outflows of Resources Related to Pensions – GASB 68

At June 30, 2016, the City reported a liability of \$212.2 million for its proportionate share of the System's net pension liability measured as of December 31, 2015. The City's proportion of the System's net pension liability was based on actual contributions to the System relative to the actual contributions of all participating employers. The amount recognized by the City as its proportionate share of the net pension liability, the proportionate share related to the Cambridge Health Alliance special funding situation and the total portion of the net pension liability associated with the City at June 30, 2016 were as follows:

City's proportionate share of net pension liability	\$ 177,431,415
City's proportionate share of net pension liability associated with Cambridge Health Alliance	<u>34,766,681</u>
	<u>\$ 212,198,096</u>

To determine employers' proportionate share of the net pension liability, allocations of net pension liability were performed. At December 31, 2015, the City was allocated 63.82% of the net pension liability related to the City and 12.51% related to the Cambridge Health Alliance special funding situation described below based on the proportion of the 2015 required employer contributions.

Special Funding Situations

Teachers, certain administrators, and other professionals of the School Department participate in a contributory defined benefit plan administered by the Massachusetts Teachers' Retirement System (MTRS). The MTRS arrangement qualifies as a special funding situation as the City has no obligation to contribute to this plan. Rather the Commonwealth funds plan benefits to the extent that funding is not provided through employee contributions. The Commonwealth's proportionate share of the collective net pension liability of MTRS associated with the City's employees as of the June 30, 2015 measurement date is \$232.5 million based on an employer allocation percentage of 1.135%. The Commonwealth contributed \$18.8 million on behalf of the City during the measurement period and the City reported the amount as an intergovernmental revenue and education expenditure in the General Fund.

In accordance with the Administrative Service Agreement dated May 6, 1997, between the City of Cambridge (City) and the Cambridge Public Health Commission, which subsequently became the Cambridge Health Alliance (CHA) the City is contractually required to fund a portion of CHA's employer contribution to the System. Accordingly, a special funding situation as defined by GASB Statement No. 68 exists and the City is treated as a nonemployer contributing entity relative to the portion of the contribution it makes on behalf of CHA. As such, the City rather than CHA, records in its financial statements the net pension liability and deferred outflows and inflows of resources related to this nonemployer contribution.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

For the year ended June 30, 2016, the City recognized pension expense of \$40.3 million. At June 30, 2016, the City reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Net differences between projected and actual investment earnings on pension plan investments	\$ 64,845,579	—
Changes in employer proportion	5,119,579	6,323,706
Changes in assumptions	25,669,722	—
	<u>\$ 95,634,880</u>	<u>6,323,706</u>

Amounts reported as deferred outflows of resources at June 30, 2016 related to pensions will be recognized in pension expense as follows:

2017	\$ 23,013,291
2018	23,013,291
2019	23,013,291
2020	20,271,301
Total	<u>\$ 89,311,174</u>

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported for the System.

(a) Sensitivity of the City's Proportionate Share of the System's Net Pension Liability

The following presents the City's proportionate share of the System's net pension liability calculated using the discount rate of 7.75% as well as what the City's proportionate share of the System's net pension liability would be if it were calculated using a discount rate that is 1% – point lower (6.75%) or 1%-point higher (8.75%) than the current rate:

City's net pension liability

	1% Decrease (6.75%)	Current discount rate (7.75%)	1% Increase (8.75%)
June 30, 2016	\$ 330,412,112	212,198,096	112,771,399

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(11) Other Postemployment Benefit Disclosures

In addition to the pension benefits described in note 9, the City provides postemployment healthcare and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. As of the valuation date, approximately 2,490 retirees and 2,905 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The City sponsors and participates in a single employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through supplemental and Medicare Advantage plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan.

Groups 1, 2 and 4 retirees, including teachers, with at least 10 years of creditable service are eligible for retirement at age 55 or they may retire after a total of 20 years creditable service regardless of age. Retirees on ordinary or accidental disability retirement are eligible at any age while ordinary disability requires 10 years of creditable service. The surviving spouse is eligible to receive both pre – and post-retirement death benefits, as well as medical and prescription drug coverage.

(a) Funding Policy

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

(b) Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

ending June 30, 2016, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2015:

Annual Required Contribution (ARC)	\$ 46,020,000
Interest on net OPEB obligation	7,319,000
Adjustment to ARC	<u>(8,840,000)</u>
Annual OPEB cost	44,499,000
Contributions made	<u>(21,404,129)</u>
Change in net OPEB obligation	23,094,871
Net OPEB obligation – beginning of year	<u>182,967,722</u>
Net OPEB obligation – end of year	<u><u>\$ 206,062,593</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal year ended	Annual OPEB cost	Percentage of OPEB cost contributed	Net OPEB obligation
2016	\$ 44,499,000	48.10%	\$ 206,062,593
2015	43,011,000	49.71	182,967,722
2014	47,621,000	46.64	161,338,998

(c) Funded Status and Funding Progress

The funded status of the plan, as of June 30, 2016, based on an actuarial valuation as of July 1, 2015 was as follows:

Actuarially accrued liability (AAL)	\$ 558,472,000
Actuarial value of plan assets	<u>7,768,000</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 550,704,000</u></u>
Funded ratio (actuarial value of plan assets/AAL)	1.4%
Covered payroll (active plan members)	\$ 188,709,740
UAAL as a percentage of covered payroll	291.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

In January 2009, the Commonwealth adopted Chapter 479, which amends Chapter 32B and allows local municipalities to establish an OPEB liability trust fund and a funding schedule for the trust fund. On December 21, 2009, the City Council approved the establishment of an irrevocable OPEB trust fund and \$2 million was transferred to the fund. During fiscal years 2014 through 2016 the City transferred an additional \$7 million to the trust fund. The City Council has approved a \$2 million transfer to the trust fund in the fiscal year 2017 budget and has committed to that funding level for future years out.

(d) *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the actuarial value of assets was determined using the fair value of investments.

In the July 1, 2015 actuarial valuation, the projected unit credit cost method was used and the actuarial accrued liability is being amortized over a period of 24 years on a closed basis and is calculated assuming a level percentage of projected payroll.

As of July 1, 2015 valuation, the discount rate was 4.0%. In general, the discount rate is to be equal to the long-term rate of return of the assets paying retiree costs.

As of July 1, 2015 valuation, the healthcare cost trend rates begin with 7.5% and decrease 0.5% annually to an ultimate rate of 4.5%. The healthcare cost trend rates as of July 1, 2015 are based on current market conditions and updated normative trend data and studies.

As of July 1, 2015 valuation, the payroll growth rate was 3.5%. This assumption should represent long-term expectations of the City's payroll growth. Therefore, recent salary increase rates, current economic environment, and the prior increases were considered. In addition, 3.5% appears to be a reasonable long-term rate of return for the City. This assumption does not affect the liability of the plan, but does affect the amortization of the unfunded actuarial accrued liability and, consequently, the annual costs.

As of July 1, 2015 valuation, the inflation rate was 3%. This assumption should represent long-term increases in salary rates and healthcare costs.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

As of July 1, 2015 valuation, future retirees electing spouse coverage is based on the employees' current coverage election. In other words, employees in the current census data with spouse coverage are assumed to have spouse coverage at retirement.

As of July 1, 2015 valuation, the percent of participants assumed to not be Medicare eligible at 65 was 7%.

(12) Transfers

Transfers and their purposes during the year ended June 30, 2016 were as follows:

	Governmental funds				Proprietary fund
	General	Capital	Affordable Housing Trust fund	Other	Enterprise fund water
Capital – to fund capital expenditures	\$ (27,802,435)	27,802,435	—	—	—
General – mitigation revenues for eligible Human Services	(1,008,005)	—	—	1,008,005	—
Parking – to fund administrative costs and other eligible City expenditures	20,166,730	1,321,000	—	(21,487,730)	—
Cemetery – to fund operational costs to fund renovations of administration, buildings and grounds	20,000	—	—	(20,000)	—
Capital – to fund eligible CDBG program costs	—	250,463	—	(250,463)	—
Water – to fund administrative costs	714,085	—	—	—	(714,085)
Affordable housing fund – from CPA Fund	—	—	9,360,000	—	—
CPA Fund – to affordable housing fund	—	—	—	(9,360,000)	—
Total	\$ <u>(7,909,625)</u>	<u>29,373,898</u>	<u>9,360,000</u>	<u>(30,110,188)</u>	<u>(714,085)</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

(13) Fund Balance Classification Details

The components of fund balance for the City's governmental funds as of June 30, 2016 are as follows.

	<u>General</u>	<u>Capital fund</u>	<u>Affordable Housing Trust fund</u>	<u>Other governmental funds</u>
Fund balances:				
Nonspendable:				
Deposits	\$ 1,536,290	—	—	—
Nonexpendable permanent funds	—	—	—	2,234,567
Restricted:				
Property and Development	—	35,498,909	—	8,317,675
Streets and Sidewalks	—	10,330,597	—	—
Parks and Recreation	—	4,074,292	—	3,908,244
Sewer Projects	—	14,740,922	—	—
Library	—	777,614	—	—
Schools	—	14,330,123	—	—
General Government	—	2,739,232	—	—
Affordable Housing	—	—	600,000	—
Community Preservation	—	—	—	—
CDBG Funds	—	—	—	—
Other City Grants Fund:				
Parks and Recreation	—	—	—	—
General Government	—	—	—	1,133,633
Human Services	—	1,571	—	1,973,046
School Grants Fund Federal/State	—	—	—	2,415,181
Expendable permanent funds	—	—	—	1,626,539
Committed:				
Parking Fund	—	—	—	14,966,897
Health Claims	22,281,967	—	—	—
Budget Stabilization	49,173,547	—	—	—
Affordable Housing	—	—	28,557,471	—
Assigned:				
Subsequent year's expenditures	12,180,000	—	—	—
Unassigned	215,772,588	—	—	—
Total fund balances	\$ <u>300,944,392</u>	<u>82,493,260</u>	<u>29,157,471</u>	<u>36,575,782</u>

Stabilization Funds

In accordance with section 5B of Chapter 40 of the Massachusetts General Laws, the City of Cambridge has established Stabilization Funds for three different purposes. This allows the municipality to reserve funds for specific events or purpose. Such stabilization funds are established with a council 2/3rd approval vote. Also all transfers in or out of the stabilization funds are approved by a council vote.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

The City Stabilization fund was the first set up in the mid 1990's as a statutory reserve account that maybe used for purposes for which city debt would ordinarily be used. The budget department uses the reserve as a revenue source annually for a portion of the City's debt service payments in order to offset larger construction projects that would ordinarily cause spikes in the annual property tax rate.

During October of 2016, the City Council voted to establish the Mitigation Stabilization and the Community Benefits Stabilization funds. The Mitigation Stabilization fund is used to accumulate revenues received from developers through the City's permitting or Zoning amendment process stipulated for specific infrastructure projects. The Community Benefits Stabilization fund accumulates revenues received with the enactment of an amendment to the City's Zoning Ordinance or other agreements earmarked for Community Benefits. Both of these funds require a council vote to transfer revenues in or out of the funds. During FY 16, approximately \$11.0 million in Mitigation Stabilization funds were revenue sources for the construction of a couple of parks throughout the City.

The Stabilization balances as of June 30, 2016 are as follows:

City Stabilization fund	\$	44,590,542
Mitigation Stabilization fund		854,505
Community Benefits Stabilization fund		<u>3,728,500</u>
Total Stabilization funds	\$	<u><u>49,173,547</u></u>

In accordance with GASB 54 requirements, balances in the Stabilization funds are classified as committed.

Commitments and Contingencies

The City has \$5.7 million in encumbrances for purchase orders and contracts in the General Fund, \$51.3 million in the Capital Fund, \$0.5 million in the Affordable Housing Trust Fund, and \$3.3 million in the Other Governmental Funds.

(14) Risk Management

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health insurance claims. The City is self insured for other general liability; however, Chapter 258 of the MGL limits the liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain and breach of contract. The City is also self insured for property and casualty, workers' compensation and unemployment claims.

The City has medical plans with Tufts, Harvard Pilgrim and Blue Cross/Blue Shield under which it makes actual claims payments. The medical plan providers act as claim processors and a transfer of risk does not occur. Approximately 90% of the City's employees participate in the self-insured plan with the remainder electing preferred provider plans that are premium based. The amount of settlements did not exceed insurance coverage for premium based health insurance elections for fiscal years ended June 30, 2016, 2015, and 2014.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2016

Active employees contribute at least 12% of the cost of healthcare with the remainder paid by the City. These costs are accounted for in the general fund. The contribution rate for retirees is 1% for those who are currently enrolled in indemnity plans and 15% for those who enroll in HMO type plans. The City does not carry stop-loss insurance.

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved.

Changes in the self insurance liability for the years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Judgments and accrued claims, beginning of year	\$ 16,802,891	16,058,000
Incurred claims	48,739,585	47,478,353
Less payments of claims attributable to events of both current and prior fiscal years	<u>(48,478,476)</u>	<u>(46,733,462)</u>
Judgments and accrued claims, end of year	<u><u>\$ 17,064,000</u></u>	<u><u>16,802,891</u></u>

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

There are numerous pending matters and lawsuits in which the City is involved. The City attorneys' estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the basic financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

June 30, 2016

(Unaudited)

Schedule of OPEB Funding Progress

(Dollars in thousands)

OPEB						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
July 1, 2015	\$ 7,768	558,472	550,704	1.4%	188,710	291.8%
July 1, 2014	7,768	538,352	530,584	1.4	182,251	291.1
July 1, 2013	5,535	579,645	574,110	1.0	177,412	323.6

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

June 30, 2016

(Unaudited)

Schedule of Employer Contributions – OPEB

(Dollars in thousands)

	<u>Annual required contribution</u>	<u>Percentage contributed</u>
Year ended June 30:		
2016	\$ 46,020	46.5
2015	44,325	48.2
2014	47,638	46.6

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

Schedule of the Net Pension Liability

(Unaudited)

	2015	2014
Total pension liability	\$ 1,362,473,754	1,259,960,680
Plan fiduciary net position	<u>1,084,498,793</u>	<u>1,102,627,150</u>
System's net pension liability	<u>\$ 277,974,961</u>	<u>157,333,530</u>
Plan fiduciary net position as a percentage of the total pension liability	80.00%	87.51%
Covered – employee payroll	\$ 226,826,076	218,627,543
System's net pension liability as a percentage of covered – employee payroll	122.5%	72.0%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

Schedule of Changes in the Net Pension Liability (Unaudited)

	2015	2014
Total pension liability:		
Service cost	\$ 30,908,861	29,791,673
Interest	98,925,146	94,315,895
Changes of benefit terms	—	—
Differences between expected and actual experience	—	—
Changes of assumptions	42,033,481	—
Benefit payments, including refunds of member contributions	(69,354,414)	(64,034,766)
Net change in total pension liability	102,513,074	60,072,802
Total pension liability – beginning	1,259,960,680	1,199,887,878
Total pension liability – ending (a)	1,362,473,754	1,259,960,680
Plan fiduciary net position:		
Contributions – employers and nonemployer	37,851,149	35,775,814
Contributions – member	21,167,434	20,572,796
Net investment income	(6,716,067)	64,639,098
Benefit payments, including refunds of member contributions	(69,354,414)	(64,034,766)
Administrative expenses	(1,076,459)	(1,031,915)
Net change in plan fiduciary net position	(18,128,357)	55,921,027
Plan fiduciary net position – beginning	1,102,627,150	1,046,706,123
Plan fiduciary net position – ending (b)	1,084,498,793	1,102,627,150
Net pension liability – ending (a) – (b)	\$ 277,974,961	157,333,530

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS
 Required Supplementary Information
 Schedule of Investment Returns
 (Unaudited)

	2015	2014
	(0.60)%	6.20%

Annual money-weighted rate of return, net of investment expense
Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

Schedule of Contributions – City of Cambridge Retirement System
(Unaudited)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 37,551,149	35,475,814	35,475,814	31,662,897	29,912,987	28,353,542	27,727,711	26,891,503	28,066,908	25,220,175
Contributions in relation to the actuarially determined contribution	37,851,149	35,775,814	35,775,814	31,967,897	32,212,987	28,553,542	27,727,711	26,891,503	28,066,908	25,220,175
Contribution deficiency (excess)	<u>\$ (300,000)</u>	<u>(300,000)</u>	<u>(300,000)</u>	<u>(305,000)</u>	<u>(2,300,000)</u>	<u>(200,000)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Covered-employee payroll	\$ 226,826,076	218,627,543	217,086,299	217,086,299	232,842,117	232,842,117	222,162,255	231,770,736	222,115,415	201,088,000
Contributions as a percentage of covered-employee payroll	16.69%	16.36%	16.34%	14.59%	12.85%	12.18%	12.48%	11.60%	12.64%	12.54%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information
Schedule of Contributions – City of Cambridge
(Unaudited)

	2016	2015
Actuarially determined contribution	\$ 23,968,898	27,505,315
Contributions in relation to the actuarially determined contribution	23,968,898	27,505,315
Contribution deficiency (excess)	\$ —	—
Covered-employee payroll	\$ 122,094,246	118,874,596
Contributions as a percentage of covered-employee payroll	16.56 %	20.37 %

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

Schedule of City's Proportionate Share of the Net Pension Liability

(Unaudited)

	2016	2015
City's proportion of the net pension liability	76.337126%	77.532583%
City's proportionate share of the net pension liability	\$ 212,198,096	121,984,750
City's covered-employee payroll	\$ 144,783,082	135,002,508
City's proportionate share of the net pension liability as a percentage of covered-employee payroll	68.23%	90.36%
City of Cambridge Retirement System fiduciary net position as a percentage of the total pension liability	80.00%	87.51%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS
Schedule of Revenues and Expenditures – Budgetary Basis
Required Supplementary Information
General Fund – Budget and Actual
Year ended June 30, 2016
(Unaudited)
(with comparative actual amounts for 2015)

	2016 Original budget	2016 Final budget	2016 Actual	Variance favorable (unfavorable)	2015 Actual
Revenues:					
Property taxes	\$ 354,430,753	354,430,753	354,430,753	—	341,445,455
Provisions for tax abatements and adj.	(4,377,717)	(4,377,717)	(4,377,717)	—	(4,604,198)
Payments in lieu of tax receipts	5,900,000	5,900,000	9,191,431	3,291,431	8,082,220
Hotel/motel/meals excise tax	18,015,000	18,015,000	19,212,693	1,197,693	17,861,201
Intergovernmental	32,494,822	32,494,822	33,697,845	1,203,023	33,076,532
Sewer use	45,950,535	45,950,535	48,818,911	2,868,376	47,920,611
Motor vehicle excise	6,650,000	6,650,000	7,452,353	802,353	7,200,225
Investment income	500,000	500,000	1,116,155	616,155	779,755
Other	33,957,414	27,291,070	59,370,779	32,079,709	69,038,258
Total revenues	<u>493,520,807</u>	<u>486,854,463</u>	<u>528,913,203</u>	<u>42,058,740</u>	<u>520,800,059</u>
Expenditures:					
Current:					
General government	59,657,190	51,340,675	39,326,338	12,014,337	34,291,105
Public safety	119,945,340	121,094,678	119,497,825	1,596,853	117,231,095
Community maintenance and development	45,570,949	47,117,778	46,704,484	413,294	48,430,608
Human resource development	36,717,148	37,043,032	36,483,532	559,500	35,118,482
Education	163,940,420	164,440,420	164,405,956	34,464	156,518,157
Judgments and claims	200,000	2,800,000	2,714,745	85,255	121,540
State and district assessments	52,545,417	52,545,417	52,137,114	408,303	50,216,265
Debt service:					
Principal	41,611,620	41,680,620	41,679,831	789	39,375,773
Interest	13,052,905	13,183,905	13,134,285	49,620	11,983,339
Total expenditures	<u>533,240,989</u>	<u>531,246,525</u>	<u>516,084,110</u>	<u>15,162,415</u>	<u>493,286,364</u>
Excess (deficiency) of revenues over expenditures	<u>(39,720,182)</u>	<u>(44,392,062)</u>	<u>12,829,093</u>	<u>57,221,155</u>	<u>27,513,695</u>
Other financing sources (uses):					
Operating transfers in (out):					
Special revenue funds	21,403,045	21,403,045	20,212,730	(1,190,315)	19,760,255
Capital projects funds	(6,526,000)	(6,746,000)	(16,809,355)	(10,063,355)	(19,264,285)
Trust funds	2,680,865	2,680,865	(13,969,225)	(16,650,090)	(2,726,235)
Enterprise fund	714,085	714,085	714,085	—	709,855
Total other financing sources (uses)	<u>18,271,995</u>	<u>18,051,995</u>	<u>(9,851,765)</u>	<u>(27,903,760)</u>	<u>(1,520,410)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(21,448,187)</u>	<u>(26,340,067)</u>	<u>\$ 2,977,328</u>	<u>29,317,395</u>	<u>25,993,285</u>
Other budget items:					
Free cash appropriations	19,450,000	24,341,880			
Prior year deficits raised	(1,813)	(1,813)			
Overlay surplus	<u>2,000,000</u>	<u>2,000,000</u>			
Total other budget items	<u>21,448,187</u>	<u>26,340,067</u>			
Net budget and actual	<u>\$ —</u>	<u>—</u>			

See accompanying independent auditors' report and notes to required supplementary information.

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to Required Supplementary Information – Schedule of Revenues and Expenditures

Year ended June 30, 2016

(Unaudited)

The City’s general fund budget is prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The “actual” results column in the statement of revenues and expenditures – budgetary basis – general fund is presented on a “budgetary basis” to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis, where applicable, are that:

Revenues are recorded when cash is received except for real estate and personal property taxes are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).

Encumbrances and continuing appropriations, which are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).

Amounts raised for the prior years’ deficits and available funds from prior years’ surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures, and transfers.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2016:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>
As reported on a budgetary basis	\$ 528,913,203	516,084,110	(9,851,765)
Adjustments:			
Revenues to modified accrual basis	12,928,483	—	—
Expenditures, encumbrances and accruals, net	—	(3,829,914)	—
On-behalf contribution for teachers pension	18,856,504	18,856,504	—
Reclassification:			
Premium on debt issuance	—	—	3,438,263
Transfers not reported on a Budgetary/GAAP basis	—	—	2,022,615
As reported on a GAAP basis	<u>\$ 560,698,190</u>	<u>531,110,700</u>	<u>(4,390,887)</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
General government:			
Mayor:			
Salaries and wages	\$ 421,005	365,673	55,332
Other ordinary maintenance	136,130	136,047	83
Travel and training	29,500	16,872	12,628
Total Mayor	<u>586,635</u>	<u>518,592</u>	<u>68,043</u>
City Manager:			
Salaries and wages	1,881,200	1,881,175	25
Other ordinary maintenance	524,950	502,142	22,808
Travel and training	43,100	35,243	7,857
Total City Manager	<u>2,449,250</u>	<u>2,418,560</u>	<u>30,690</u>
City Council:			
Salaries and wages	1,711,620	1,711,617	3
Other ordinary maintenance	52,400	50,124	2,276
Travel and training	62,200	41,341	20,859
Total City Council	<u>1,826,220</u>	<u>1,803,082</u>	<u>23,138</u>
City Clerk:			
Salaries and wages	1,063,405	1,061,428	1,977
Other ordinary maintenance	68,610	68,567	43
Travel and training	4,420	1,030	3,390
Total City Clerk	<u>1,136,435</u>	<u>1,131,025</u>	<u>5,410</u>
Law:			
Salaries and wages	1,540,530	1,540,520	10
Other ordinary maintenance	426,300	354,083	72,217
Travel and training	14,245	10,869	3,376
Total law	<u>1,981,075</u>	<u>1,905,472</u>	<u>75,603</u>
Finance:			
Salaries and wages	11,506,655	10,990,847	515,808
Other ordinary maintenance	4,215,425	4,095,774	119,651
Travel and training	331,725	302,335	29,390
Extraordinary expenditures	62,800	57,526	5,274
Total finance	<u>16,116,605</u>	<u>15,446,482</u>	<u>670,123</u>
Employment benefits:			
Salaries and wages	23,194,965	12,343,293	10,851,672
Other ordinary maintenance	853,580	733,324	120,256
Travel and training	30,000	63	29,937
Total employment benefits	<u>24,078,545</u>	<u>13,076,680</u>	<u>11,001,865</u>

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2016

	Budget	Actual	Variance positive (negative)
General services:			
Salaries and wages	\$ 237,905	237,843	62
Other ordinary maintenance	449,435	343,346	106,089
Total general services	687,340	581,189	106,151
Election commission:			
Salaries and wages	986,870	986,822	48
Other ordinary maintenance	237,465	221,805	15,660
Travel and training	2,270	1,357	913
Total election commission	1,226,605	1,209,984	16,621
Public celebrations:			
Salaries and wages	516,295	516,271	24
Other ordinary maintenance	400,280	390,152	10,128
Travel and training	1,325	940	385
Total public celebrations	917,900	907,363	10,537
Reserve:			
Other ordinary maintenance	—	—	—
Total reserve	—	—	—
Animal commission:			
Salaries and wages	315,610	315,583	27
Other ordinary maintenance	18,305	12,176	6,129
Travel and training	150	150	—
Total animal commission	334,065	327,909	6,156
Total general government	51,340,675	39,326,338	12,014,337
Public safety:			
Fire:			
Salaries and wages	42,943,895	42,943,821	74
Other ordinary maintenance	2,211,900	2,046,865	165,035
Travel and training	589,500	573,829	15,671
Extraordinary expenditures	110,000	109,999	1
Total fire	45,855,295	45,674,514	180,781
Police:			
Salaries and wages	48,023,915	48,023,818	97
Other ordinary maintenance	2,356,082	2,054,692	301,390
Travel and training	278,268	268,818	9,450
Extraordinary expenditures	552,703	531,437	21,266
Total police	51,210,968	50,878,765	332,203

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2016

	Budget	Actual	Variance positive (negative)
Traffic and parking:			
Salaries and wages	\$ 8,055,830	7,823,356	232,474
Other ordinary maintenance	3,297,040	2,850,608	446,432
Travel and training	62,000	58,413	3,587
Extraordinary expenditures	69,000	51,104	17,896
Total traffic and parking	11,483,870	10,783,481	700,389
Police review and advisory board:			
Salaries and wages	73,735	16,939	56,796
Other ordinary maintenance	700	15	685
Travel and training	3,000	2,770	230
Total police review and advisory board	77,435	19,724	57,711
Inspectional services:			
Salaries and wages	3,253,345	3,166,185	87,160
Other ordinary maintenance	140,680	99,500	41,180
Travel and training	10,425	6,465	3,960
Extraordinary expenditures	10,000	2,592	7,408
Total inspectional services	3,414,450	3,274,742	139,708
License:			
Salaries and wages	1,116,835	1,004,146	112,689
Other ordinary maintenance	59,955	59,048	907
Travel and training	6,355	1,884	4,471
Total license	1,183,145	1,065,078	118,067
Weights and measures:			
Salaries and wages	136,650	136,635	15
Other ordinary maintenance	6,780	6,548	232
Travel and training	3,245	3,197	48
Extraordinary expenditures	—	—	—
Total weights and measures	146,675	146,380	295
Electrical:			
Salaries and wages	1,575,655	1,575,649	6
Other ordinary maintenance	936,460	898,448	38,012
Travel and training	56,170	51,611	4,559
Extraordinary expenditures	70,000	58,709	11,291
Total electrical	2,638,285	2,584,417	53,868

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2016

	Budget	Actual	Variance positive (negative)
Emergency communications:			
Salaries and wages	\$ 4,914,995	4,914,951	44
Other ordinary maintenance	149,710	138,799	10,911
Travel and training	15,850	13,209	2,641
Extraordinary expenditures	4,000	3,765	235
Total emergency communications	5,084,555	5,070,724	13,831
Total public safety	121,094,678	119,497,825	1,596,853
Community maintenance and development:			
Public works:			
Salaries and wages	22,620,740	22,620,584	156
Other ordinary maintenance	12,762,975	12,734,061	28,914
Travel and training	1,029,930	892,632	137,298
Extraordinary expenditures	625,000	625,000	—
Total public works	37,038,645	36,872,277	166,368
Community development:			
Salaries and wages	6,108,947	6,038,539	70,408
Other ordinary maintenance	1,473,690	1,360,505	113,185
Travel and training	39,264	39,097	167
Extraordinary expenditures	100,188	100,188	—
Total community development	7,722,089	7,538,329	183,760
Historical commission:			
Salaries and wages	614,170	594,189	19,981
Other ordinary maintenance	39,610	34,410	5,200
Travel and training	800	800	—
Total historical commission	654,580	629,399	25,181
Conservation commission:			
Salaries and wages	—	—	—
Other ordinary maintenance	—	—	—
Travel and training	—	—	—
Total conservation commission	—	—	—
Peace commission:			
Salaries and wages	139,895	139,887	8
Other ordinary maintenance	10,325	4,238	6,087
Travel and training	1,850	1,825	25
Total peace commission	152,070	145,950	6,120

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2016

	Budget	Actual	Variance positive (negative)
Cable television:			
Salaries and wages	\$ 544,895	524,857	20,038
Other ordinary maintenance	1,002,049	990,580	11,469
Travel and training	3,450	3,092	358
Total cable television	1,550,394	1,518,529	31,865
Total community maintenance and development	47,117,778	46,704,484	413,294
Human resource development:			
Library:			
Salaries and wages	7,208,355	7,208,279	76
Other ordinary maintenance	2,511,085	2,493,786	17,299
Travel and training	91,650	40,292	51,358
Total library	9,811,090	9,742,357	68,733
Human services:			
Salaries and wages	22,101,603	21,833,731	267,872
Other ordinary maintenance	3,411,804	3,302,261	109,543
Travel and training	88,900	67,337	21,563
Extraordinary expenditures	25,000	24,949	51
Total human services	25,627,307	25,228,278	399,029
Women's commission:			
Salaries and wages	235,865	235,768	97
Other ordinary maintenance	9,535	9,510	25
Travel and training	1,025	157	868
Total women's commission	246,425	245,435	990
Human rights commission:			
Salaries and wages	270,940	254,133	16,807
Other ordinary maintenance	3,000	1,758	1,242
Travel and training	1,200	1,161	39
Total human rights commission	275,140	257,052	18,088
Veterans benefits:			
Salaries and wages	296,670	254,164	42,506
Other ordinary maintenance	54,900	32,823	22,077
Travel and training	731,500	723,423	8,077
Total veterans benefits	1,083,070	1,010,410	72,660
Total human resource development	37,043,032	36,483,532	559,500

CITY OF CAMBRIDGE, MASSACHUSETTS

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Education:			
Salaries and wages	\$ 135,371,576	135,363,918	7,658
Other ordinary maintenance	27,268,589	27,259,052	9,537
Travel and training	1,053,459	1,036,430	17,029
Extraordinary expenditures	205,929	205,689	240
Debt:			
Principal payments	472,167	472,167	—
Interest payments	68,700	68,700	—
Total education	<u>164,440,420</u>	<u>164,405,956</u>	<u>34,464</u>
Judgments and claims	<u>2,800,000</u>	<u>2,714,745</u>	<u>85,255</u>
Debt retirement:			
Principal payments	54,513,325	54,512,122	1,203
Interest payments	351,200	301,994	49,206
Total debt retirement	<u>54,864,525</u>	<u>54,814,116</u>	<u>50,409</u>
State and district assessments:			
MBTA assessment	9,193,276	9,193,276	—
MWRA assessment	23,516,200	23,373,200	143,000
Other State assessments	12,835,941	12,570,638	265,303
Cambridge Health Alliance	7,000,000	7,000,000	—
Total state and district assessments	<u>52,545,417</u>	<u>52,137,114</u>	<u>408,303</u>
Total general fund expenditures	<u>\$ 531,246,525</u>	<u>516,084,110</u>	<u>15,162,415</u>

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2016

The following section provides detailed information on the general fund, other governmental funds and agency funds included in the basic financial statements. Information on real, personal, and excise tax collections, and a schedule of the bonds and notes payable of the City is also provided in this section.

CITY OF CAMBRIDGE, MASSACHUSETTS

Other Governmental Funds

June 30, 2016

Other Governmental Funds

Community Development Block Grant

Revenues from the community development block grant program are recorded in this fund. A transfer of revenues is made at the end of the fiscal year to the capital projects funds to cover block grant related expenditures in these funds during the fiscal year. All operating expenditures are recorded within this fund.

School Grants

This fund accounts for both the receipt and expenditure of funds received from numerous federal and state agencies to support a wide range of elementary and secondary school programs.

Parking Fund

Receipts from the parking fund, which consist primarily of meter collections, parking fines, and miscellaneous revenues, are recorded in this fund and support a wide range of City programs in accordance with Chapter 844 of the Massachusetts General Laws. In a similar manner to the block grant funds, an amount equal to that which is appropriated to the general and capital projects funds, is transferred to those funds at the end of the fiscal year.

Community Preservation Act

Receipts from added 3% tax and the matching funds from the State for the preservation of open space, historic locations and affordable housing are recorded in this fund. In a similar manner to the parking fund, an amount equal to the amount appropriated to the capital projects and other grants funds, is transferred to those funds at the end of the fiscal year.

Other Grants

Funds from a wide range of federal and state grants provide additional support to several City programs, including the Arts Council, Historical Commission, and Library. Both the receipt and expenditure of these funds are accounted for in this fund.

Permanent Funds

This fund accumulates all the City's trust funds that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Balance Sheet

Other Governmental Funds

June 30, 2016

	Special Revenue					
	Community development block grant	School grants	Parking fund	Community preservation act	Other grants	Total
Assets						
Cash and short-term investments	\$ 189,720	1,427,748	14,756,430	13,082,542	3,646,806	36,964,352
Accounts receivable	—	—	210,467	102,645	260	313,372
Due from other governments	429,837	2,131,988	—	—	194,568	2,756,393
Total assets	\$ 619,557	3,559,736	14,966,897	13,185,187	3,841,634	40,034,117
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities:						
Warrants payable	\$ 36,705	1,033,328	—	258,536	660,230	1,988,799
Accrued liabilities	12,883	111,227	—	598,086	74,725	796,921
Due to other funds	569,969	—	—	—	—	569,969
Total liabilities	619,557	1,144,555	—	856,622	734,955	3,355,689
Deferred inflows of resources:						
Unavailable revenue	—	—	—	102,646	—	102,646
Fund balances:						
Nonspendable	—	—	—	—	—	2,234,567
Restricted	—	2,415,181	—	12,225,919	3,106,679	19,374,318
Committed	—	—	14,966,897	—	—	14,966,897
Total fund balances	—	2,415,181	14,966,897	12,225,919	3,106,679	36,575,782
Total liabilities, deferred inflows of resources, and fund balances	\$ 619,557	3,559,736	14,966,897	13,185,187	3,841,634	40,034,117

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Other Governmental Funds

Year ended June 30, 2016

	Special Revenue					Permanent funds	Total
	Community development block grant	School grants	Parking fund	Community preservation act	Other grants		
Revenues:							
Intergovernmental	\$ 1,319,471	11,735,296	—	2,732,645	8,739,000	—	24,526,412
Investment income	—	—	139,348	42,763	4,727	29,924	216,762
Other:							
Permits	—	—	915,175	—	—	—	915,175
Fines	—	—	10,139,217	—	—	—	10,139,217
Charges for services	—	—	10,017,004	—	—	—	10,017,004
Miscellaneous	—	1,697,559	88,881	9,507,258	279,556	244,836	11,818,090
Total revenues	1,319,471	13,432,855	21,299,625	12,282,666	9,023,283	274,760	57,632,660
Expenditures:							
General government	—	—	—	19,600	90,687	195,159	305,446
Public safety	—	—	—	—	965,588	—	965,588
Community maintenance and development	692,159	—	—	3,396,362	236,111	—	4,324,632
Human services	376,849	—	—	25,318	7,554,131	—	7,956,298
Education	—	14,155,888	—	—	—	—	14,155,888
Total expenditures	1,069,008	14,155,888	—	3,441,280	8,846,517	195,159	27,707,852
Excess (deficiency) of revenues over expenditures	250,463	(723,034)	21,299,625	8,841,387	176,766	79,601	29,924,808
Other financing sources (uses):							
Transfers from other funds	—	—	—	—	1,008,005	—	1,008,005
Transfers to other funds	(250,463)	—	(21,487,730)	(9,360,000)	—	(20,000)	(31,118,193)
Excess (deficiency) of revenues over expenditures and transfers	—	(723,034)	(188,105)	(518,613)	1,184,771	59,601	(185,380)
Fund balances at beginning of year	—	3,138,215	15,155,002	12,744,532	1,921,908	3,801,505	36,761,162
Fund balances at end of year	\$ —	2,415,181	14,966,897	12,225,919	3,106,679	3,861,106	36,575,782

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2016

Agency Funds

The City's Agency Funds are used to account for assets received and disbursed by the City acting in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

CITY OF CAMBRIDGE, MASSACHUSETTS
Combining Statement of Changes in Assets and Liabilities – Agency Funds
Year ended June 30, 2016

Assets	Balance at June 30, 2015	Additions	Deductions	Balance at June 30, 2016
Contract Bids	\$ 113,214	—	—	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	154,416	384,115	104,510	434,021
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	171,097	5,895,200	6,025,706	40,591
Cambridge Fire Detail	87,244	1,881,136	1,903,232	65,148
Dog Licenses	10,657	—	—	10,657
Sporting Licenses	2,390	—	—	2,390
Constable Fees	231,170	99,690	83,672	247,188
Meal Tax Agency	36,619	—	—	36,619
Senior Cab	4,279	—	—	4,279
Water Service Renewal	17,422	—	—	17,422
Undistributed Interest	3,682	—	3,666	16
Purchase of Trees	89,514	210,485	—	299,999
Accident and life Insurance	1,040,312	296,062	284,893	1,051,481
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	23,528	—	—	23,528
Retirement Office Payroll	609,060	529,131	537,224	600,967
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,218,081	739,786	600,000	1,357,867
Excise Registry Fees	13,857	—	—	13,857
3 Bigelow Contingency Fund	52,448	3,922	45	56,325
Retroactive Wages	6	—	—	6
Land Court Fees	55,608	—	—	55,608
Choke Program	1,182	—	—	1,182
Payroll Checks	64,992	—	—	64,992
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	265,329	—	—	265,329
Stop Payments	22,667	—	—	22,667
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Water Department Deposits	585,985	153,000	64,750	674,235
Salem State Reading Spec. Prog	501	—	—	501
Citizens Bank Cks June 2012	730,201	—	1,644	728,557
Parking Garage Deposits	51,142	76,740	29,039	98,843
MASCO/Shuttle Program	—	228	—	228
Twelve Mt. Auburn	7,684	—	—	7,684
Blue Cross	6,112	—	—	6,112
Hackney Applications	5,386	—	—	5,386
Purchase of Bike Racks	5,138	—	—	5,138
Recycling Bins	228	—	—	228
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-Three Mt. Auburn Rents	2,028	—	—	2,028
Police – Recovered Cash	—	—	—	—
Police – Found Cash	—	—	—	—
Firearms Recordkeeping Fund	20,495	12,438	16,638	16,295
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	25,901	—	—	25,901
Estate of George W. Boyce	54,591	—	—	54,591
Kendall Sq. Fire Station	150,000	—	—	150,000
Computers for Kids	1,000	—	—	1,000
Payroll Payable	(69,948)	—	257	(70,205)
Robert Chambers Settlement	7,799	—	—	7,799
Peabody School Fund	3,519	11,904	12,163	3,260
Fletcher/Maynard School Fund	2,608	33,596	35,436	768
Cambridgeport School Fund	1,589	20,011	20,125	1,475
Kennedy Longfellow School Fund	53	—	—	53
Graham & Parks School Fund	4,922	5,725	6,497	4,150
Putnam Ave Upper School Fund	1,916	4,761	2,132	4,545
Rindge Ave Upper School Fund	—	—	—	—
Baldwin School Fund	484	2	—	486
Amigos School Fund	2,000	5,006	6,283	723
Haggerty School Fund	3,815	2,007	4,282	1,540
King School Fund	4,615	15	—	4,630
King Open School Fund	—	—	—	—
Morse School Fund	—	—	—	—
Tobin School Fund	—	—	—	—
Cambridge Street Upper School	—	—	—	—
Vassal Lane Upper School Fund	—	—	—	—
CRLS Activities Fund	—	320	—	320
CRLS Scholarships Fund	—	66,355	—	66,355
Total	\$ 6,032,339	10,431,635	9,742,194	6,721,780

CITY OF CAMBRIDGE, MASSACHUSETTS
Combining Statement of Changes in Assets and Liabilities – Agency Funds
Year ended June 30, 2016

Liabilities	Balance at June 30, 2015	Additions	Deductions	Balance at June 30, 2016
Guarantee deposits and amounts due other:				
Contract Bids	\$ 113,214	—	—	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	154,416	384,115	104,510	434,021
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	171,097	5,895,200	6,025,706	40,591
Cambridge Fire Detail	87,244	1,881,136	1,903,232	65,148
Dog Licenses	10,657	—	—	10,657
Sporting Licenses	2,390	—	—	2,390
Constable Fees	231,170	99,690	83,672	247,188
Meal Tax Agency	36,619	—	—	36,619
Senior Cab	4,279	—	—	4,279
Water Service Renewal	17,422	—	—	17,422
Undistributed Interest	3,682	—	3,666	16
Purchase of Trees	89,514	210,485	—	299,999
Accident and life Insurance	1,040,312	296,062	284,893	1,051,481
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	23,528	—	—	23,528
Retirement Office Payroll	609,060	529,131	537,224	600,967
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	1,218,081	739,786	600,000	1,357,867
Excise Registry Fees	13,857	—	—	13,857
3 Bigelow Contingency Fund	52,448	3,922	45	56,325
Retroactive Wages	6	—	—	6
Land Court Fees	55,608	—	—	55,608
Choke Program	1,182	—	—	1,182
Payroll Checks	64,992	—	—	64,992
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	265,329	—	—	265,329
Stop Payments	22,667	—	—	22,667
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Water Department Deposits	585,985	153,000	64,750	674,235
Salem State Reading Spec. Prog	501	—	—	501
Citizens Bank Cks June 2012	730,201	—	1,644	728,557
Parking Garage Deposits	51,142	76,740	29,039	98,843
MASCO/Shuttle Program	—	228	—	228
Twelve Mt. Auburn	7,684	—	—	7,684
Blue Cross	6,112	—	—	6,112
Hackney Applications	5,386	—	—	5,386
Purchase of Bike Racks	5,138	—	—	5,138
Recycling Bins	228	—	—	228
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-three Mt. Auburn Rents	2,028	—	—	2,028
Police – Recovered Cash	—	—	—	—
Police – Found Cash	—	—	—	—
Firearms Recordkeeping Cash	20,495	12,438	16,638	16,295
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	25,901	—	—	25,901
Estate of George W. Boyce	54,591	—	—	54,591
Kendall Sq. Fire Station	150,000	—	—	150,000
Computers for Kids	1,000	—	—	1,000
Payroll Payable	(69,948)	—	257	(70,205)
Robert Chambers Settlement	7,799	—	—	7,799
Peabody School Fund	3,519	11,904	12,163	3,260
Fletcher/Maynard School Fund	2,608	33,596	35,436	768
Cambridgeport School Fund	1,589	20,011	20,125	1,475
Kennedy Longfellow School Fund	53	—	—	53
Graham & Parks School Fund	4,922	5,725	6,497	4,150
Putnam Ave Upper School Fund	1,916	4,761	2,132	4,545
Rindge Ave Upper School Fund	—	—	—	—
Baldwin School Fund	484	2	—	486
Amigos School Fund	2,000	5,006	6,283	723
Haggerty School Fund	3,815	2,007	4,282	1,540
King School Fund	4,615	15	—	4,630
King Open School Fund	—	—	—	—
Morse School Fund	—	—	—	—
Tobin School Fund	—	—	—	—
Cambridge Street Upper School	—	—	—	—
Vassal Lane Upper School Fund	—	—	—	—
CRLS Activities Fund	—	320	—	320
CRLS Scholarships Fund	—	66,355	—	66,355
Total	\$ 6,032,339	10,431,635	9,742,194	6,721,780

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Supplemental Statements and Schedules

June 30, 2016

Other Schedules

The following schedules present detailed information on the City's real estate, personal property and motor vehicle excise taxes, and bonds and notes payable, as of June 30, 2016.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes

June 30, 2016

	Uncollected June 30, 2015	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2016
Real estate taxes:								
2005	\$ —	—	—	—	—	—	—	—
2006	—	—	—	4,734	—	—	(4,734)	—
2007	—	—	—	4,915	—	—	(4,915)	—
2008	—	—	—	—	—	—	—	—
2009	1,447	—	—	—	—	—	—	1,447
2010	—	—	—	—	—	(2,659)	2,659	—
2011	8,527	—	—	—	102,266	(110,793)	—	—
2012	—	—	—	21,085	109,661	(130,746)	—	—
2013	—	—	(16,991)	22,608	154,633	(160,250)	—	—
2014	3,059	—	(40,115)	16,703	68,306	(76,021)	40,082	12,014
2015	3,522,566	—	(46,485)	(513,559)	73,364	(2,822,467)	1,658	215,077
2016	—	334,173,630	(991,148)	—	339,638	(329,570,754)	(13,948)	3,937,418
Total real estate	\$ 3,535,599	334,173,630	(1,094,739)	(443,514)	847,868	(332,873,690)	20,802	4,165,956

Years with no beginning uncollected balances or activity are not presented.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes

June 30, 2016

	Uncollected June 30, 2015	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2016
Personal property taxes:								
2002	\$ 13	—	—	—	—	—	—	13
2003	6,319	—	—	—	—	(277)	(660)	5,382
2004	9,217	—	—	—	—	(300)	(381)	8,536
2005	12,812	—	—	—	—	(293)	(769)	11,750
2006	7,941	—	—	—	—	(597)	(621)	6,723
2007	11,137	—	—	—	—	(606)	(1,089)	9,442
2008	13,815	—	—	—	—	(581)	(3,123)	10,111
2009	30,728	—	—	—	—	(614)	(14,774)	15,340
2010	37,167	—	(28,125)	—	28,125	(28,770)	15,483	23,880
2011	131,978	—	(59,700)	—	59,700	(71,301)	(28,320)	32,357
2012	268,484	—	(62,280)	—	62,280	(76,643)	(139,412)	52,429
2013	244,234	—	(27,929)	—	27,929	(42,304)	(16,679)	185,251
2014	273,345	—	—	—	—	(5,946)	(36,645)	230,754
2015	516,356	—	—	—	—	(424,497)	153,486	245,345
2016	—	21,646,472	(17,161)	—	71,726	(21,045,914)	(77,094)	578,029
Total personal property	1,563,546	21,646,472	(195,195)	—	249,760	(21,698,643)	(150,598)	1,415,342
Other	196,359	—	—	—	—	—	15,566	211,925
Property taxes	\$ 5,295,504	355,820,102	(1,289,934)	(443,514)	1,097,628	(354,572,333)	(114,230)	5,793,223
Years with no beginning uncollected balances or activity are not presented.								

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes

June 30, 2016

	Uncollected June 30, 2015	Commitments	Abatements	Transfers to tax title	Refunds	Collections	Adjustments increase (decrease)	Uncollected June 30, 2016
Motor vehicle excise taxes:	\$							
1986	2,643	—	—	—	—	—	—	2,643
1987	57,262	—	—	—	—	(11)	—	57,251
1988	71,794	—	—	—	—	(299)	—	71,495
1989	76,291	—	—	—	—	(247)	1	76,045
1990	67,899	—	—	—	—	(40)	—	67,859
1991	51,037	—	—	—	—	(67)	—	50,970
1992	51,540	—	—	—	—	(108)	—	51,432
1993	48,742	—	(29)	—	—	(55)	—	48,658
1994	51,609	—	(54)	—	—	(50)	—	51,505
1995	55,863	—	(25)	—	—	—	—	55,838
1996	55,233	—	—	—	—	(18)	—	55,215
1997	47,153	—	—	—	—	—	—	47,153
1998	62,070	—	—	—	—	(243)	—	61,827
1999	108,573	—	—	—	—	(163)	—	108,410
2000	169,346	—	—	—	—	(600)	(1)	168,745
2001	211,538	—	(351)	—	351	(1,055)	—	210,483
2002	191,429	—	—	—	—	(453)	2	190,978
2003	170,675	—	(174)	—	—	(657)	(1)	169,843
2004	142,542	—	(125)	—	—	(1,257)	360	141,520
2005	115,825	—	—	—	—	(988)	—	114,837
2006	103,629	—	—	—	—	(979)	—	102,650
2007	136,931	—	—	—	54	(1,025)	—	135,960
2008	119,134	—	(24)	—	—	(811)	—	118,299
2009	101,837	—	(161)	—	—	(1,954)	1	99,723
2010	114,926	—	(85)	—	—	(2,244)	—	112,597
2011	123,122	—	(666)	—	—	(5,508)	—	116,949
2012	119,537	—	(93)	—	—	(7,573)	1	111,868
2013	143,767	—	(2,262)	—	1,927	(27,844)	(3)	115,586
2014	231,254	507	(10,351)	—	11,563	(80,199)	(2)	152,778
2015	561,914	844,163	(82,374)	—	78,581	(1,161,042)	4	241,417
2016	—	6,909,250	(161,363)	—	40,118	(6,083,580)	175	703,573
Total motor vehicle	\$ 3,565,115	7,753,920	(258,137)	—	132,594	(7,379,070)	(852)	3,814,107

Years with no beginning uncollected balances or activity are not presented.

See accompanying independent auditors' report.

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds and Notes Payable

Year ended June 30, 2016

	Interest rates	Issue dates	Final maturity date	Balance June 30, 2015	Additions	Retired	Balance June 30, 2016
Inside debt limit:							
Hospital Series B 2007 Bonds	4.00%	3/15/2007	2/1/2018	\$ 4,495,000	—	1,500,000	2,995,000
Police Station Acquisition/Renovations	3.50%-4.25%	2/1/2006	1/1/2026	1,750,000	—	1,750,000	—
Library Construction	3.50%-4.25%	2/1/2006	1/1/2026	800,000	—	800,000	—
West Cambridge Youth Center	3.50%-4.25%	2/1/2006	1/1/2016	300,000	—	300,000	—
Building Renovations	3.50%-4.25%	2/1/2006	1/1/2016	100,000	—	100,000	—
Yerxa Road Underpass	3.50%-4.00%	2/1/2006	1/1/2016	100,000	—	100,000	—
Open Space Improvements	3.50%-4.00%	2/1/2006	1/1/2016	50,000	—	50,000	—
Porter Square Enhancements	3.50%-4.00%	2/1/2006	1/1/2016	80,000	—	80,000	—
Sewer Reconstruction	3.50%-4.00%	2/1/2006	1/1/2016	1,020,000	—	1,020,000	—
Building Renovations	4.00%	2/15/2007	2/1/2017	130,000	—	65,000	65,000
Police Station Acquisition/Renovations	4.00%	2/15/2007	2/1/2027	1,700,000	—	850,000	850,000
West Cambridge Youth Center	4.00%	2/15/2007	2/1/2017	1,600,000	—	800,000	800,000
Area 4 Park Improvements	4.00%	2/15/2007	2/1/2017	100,000	—	50,000	50,000
Yerxa Road Underpass	4.00%	2/15/2007	2/1/2017	220,000	—	110,000	110,000
Harvard Square Enhancements	4.00%	2/15/2007	2/1/2017	300,000	—	150,000	150,000
Sewer Reconstruction	4.00%	2/15/2007	2/1/2017	680,000	—	340,000	340,000
CRLS Renovations	3.00%-4.00%	2/1/2008	2/1/2028	750,000	—	250,000	500,000
War Memorial Renovations	3.00%-3.25%	2/1/2008	2/1/2018	3,667,786	—	1,222,598	2,445,188
Police Station Acquisition/Renovations	3.00%-4.00%	2/1/2008	2/1/2028	1,215,000	—	405,000	810,000
West Cambridge Youth Center	3.00%-3.25%	2/1/2008	2/1/2018	1,760,000	—	590,000	1,170,000
Library Construction	3.00%-4.00%	2/1/2008	2/1/2028	4,065,000	—	1,355,000	2,710,000
War Memorial Renovations	3.00%-3.25%	2/1/2008	2/1/2018	1,416,501	—	472,167	944,334
Harvard Square Enhancements	3.00%-3.25%	2/1/2008	2/1/2018	180,000	—	60,000	120,000
Sewer Reconstruction	3.00%-3.25%	2/1/2008	2/1/2018	1,860,713	—	620,235	1,240,478
Fire Station Renovations	2.00%-4.00%	3/15/2009	3/15/2019	400,000	—	100,000	300,000
Library Construction	2.00%-4.375%	3/15/2009	3/15/2029	7,395,000	—	530,000	6,865,000
Building Renovations	2.00%-4.00%	3/15/2009	3/15/2019	200,000	—	50,000	150,000
CRLS Renovations	2.00%	3/15/2009	3/15/2029	21,000,000	—	1,500,000	19,500,000
Replacement of Radio System	2.00%-4.00%	3/15/2009	3/15/2019	200,000	—	50,000	150,000
Sewer Reconstruction	2.00%-4.00%	3/15/2009	3/15/2019	1,920,000	—	480,000	1,440,000
War Memorial Renovations (MSBA)	2.00%	6/25/2009	11/1/2019	1,050,000	—	210,000	840,000
CRLS Renovations	2.00%-3.75%	2/15/2010	2/15/2030	18,750,000	—	1,250,000	17,500,000
Sewer Reconstruction	2.00%-3.00%	2/15/2010	2/15/2020	3,450,000	—	690,000	2,760,000
Yerxa Road Underpass Construction	2.00%-3.00%	2/15/2010	2/15/2020	150,000	—	30,000	120,000
War Memorial Renovations	2.00%-4.00%	2/15/2011	2/15/2021	95,000	—	20,000	75,000
Building Renovations	2.00%-4.00%	2/15/2011	2/15/2021	900,000	—	150,000	750,000
Replacement of Radio System	2.00%-4.00%	2/15/2011	2/15/2021	3,720,000	—	620,000	3,100,000
Old Police Station Renovation	2.00%-4.50%	2/15/2011	2/15/2031	3,200,000	—	200,000	3,000,000
CRLS Renovations	2.00%-4.50%	2/15/2011	2/15/2031	12,905,000	—	810,000	12,095,000
Harvard Square Enhancements	2.00%-4.00%	2/15/2011	2/15/2021	1,400,000	—	150,000	1,250,000
Danehy Park Improvements	2.00%-4.00%	2/15/2011	2/15/2021	420,000	—	70,000	350,000
Kendall Square Improvements	2.00%	2/15/2011	2/15/2016	100,000	—	100,000	—
Sewer Reconstruction	2.00%-4.00%	2/15/2011	2/15/2021	9,000,000	—	1,500,000	7,500,000
CRLS Renovations (MSBA)	2.00%	7/12/2011	11/1/2021	4,162,578	—	594,654	3,567,924
Building Renovations	2.00%	2/15/2012	2/15/2022	1,400,000	—	200,000	1,200,000
Old Police Station Renovation	2.00%-3.00%	2/15/2012	2/15/2032	8,945,000	—	530,000	8,415,000
Elementary School Renovations (Design)	2.00%	2/15/2012	2/15/2017	1,200,000	—	600,000	600,000
Refinancing Bonds (2004, 2005, 2006)	1.00%-5.00%	3/22/2012	1/1/2024	24,400,000	—	1,020,000	23,380,000
Street / Sidewalk Reconstruction	2.00%	2/15/2012	2/15/2022	700,000	—	100,000	600,000
Open Space Improvements	2.00%	2/15/2012	2/15/2022	910,000	—	130,000	780,000
Kendall Square Improvements	2.00%	2/15/2012	2/15/2022	210,000	—	30,000	180,000
Harvard Square Tunnel Improvements	2.00%	2/15/2012	2/15/2022	1,400,000	—	200,000	1,200,000
Sewer Reconstruction	2.00%	2/15/2012	2/15/2022	14,245,000	—	2,035,000	12,210,000
MCWT Loan (Gross Pay) CW-10-04)	—	6/13/2012	7/15/2022	8,078,940	—	1,004,574	7,074,366
King School Renovations	2.00%-3.00%	2/19/2013	2/15/2033	29,700,000	—	1,650,000	28,050,000
Old Police Station Renovations	2.00%-3.00%	2/19/2013	2/15/2033	3,660,000	—	205,000	3,455,000
Acquisitions of Fire Vehicles	2.00%-3.00%	2/19/2013	2/15/2023	995,000	—	125,000	870,000
City Hall Roof Replacement	2.00%-3.00%	2/19/2013	2/15/2023	800,000	—	100,000	700,000
Street / Sidewalk Reconstruction	2.00%-3.00%	2/19/2013	2/15/2023	800,000	—	100,000	700,000
Harvard Square Tunnel Improvements	2.00%-3.00%	2/19/2013	2/15/2023	1,200,000	—	150,000	1,050,000
Danehy Park Improvements	2.00%-3.00%	2/19/2013	2/15/2023	1,230,000	—	155,000	1,075,000
Kendall Square Improvements	2.00%-3.00%	2/19/2013	2/15/2023	400,000	—	50,000	350,000
Sewer Reconstruction	2.00%-3.00%	2/19/2013	2/15/2023	17,120,000	—	2,140,000	14,980,000
MWRA Loan	—	2/25/2013	2/15/2018	429,000	—	143,000	286,000
King School Renovations	3.00%-5.00%	2/18/2014	2/15/2034	17,575,000	—	925,000	16,650,000
Kendall Square Improvements	5.00%	2/18/2014	2/15/2024	900,000	—	100,000	800,000
Street / Sidewalk Reconstruction	5.00%	2/18/2014	2/15/2024	900,000	—	100,000	800,000
Harvard Square Tunnel Improvements	5.00%	2/18/2014	2/15/2024	900,000	—	100,000	800,000
Cambridge Common Improvements	5.00%	2/18/2014	2/15/2024	450,000	—	50,000	400,000
Sewer Reconstruction	5.00%	2/18/2014	2/25/2024	11,610,000	—	1,290,000	10,320,000
MCWT Loan CWP-13-03	2.00%	1/7/2015	1/15/2025	13,131,390	—	1,189,770	11,941,620
King School Renovations	2.00%-5.00%	3/3/2015	2/15/2035	41,000,000	—	2,050,000	38,950,000
344 Broadway Building Renovations	2.00%-5.00%	3/3/2015	2/15/2025	1,500,000	—	150,000	1,350,000
School Building Renovations	2.00%-5.00%	3/3/2015	2/15/2025	750,000	—	75,000	675,000
Police Station Elevator Repairs	2.00%-5.00%	3/3/2015	2/15/2020	150,000	—	30,000	120,000
City Hall Women's Restroom	2.00%-5.00%	3/3/2015	2/15/2020	100,000	—	20,000	80,000
Old Police Station Renovations	2.00%-5.00%	3/3/2015	2/15/2020	100,000	—	20,000	80,000
Kendall Square Surface Improvements	2.00%-5.00%	3/3/2015	2/15/2025	4,000,000	—	400,000	3,600,000
Cambridge Common Improvements	2.00%-5.00%	3/3/2015	2/15/2025	1,180,000	—	120,000	1,060,000
Danehy Park Improvements	2.00%-5.00%	3/3/2015	2/15/2025	1,150,000	—	115,000	1,035,000
Street / Sidewalk Reconstruction	2.00%-5.00%	3/3/2015	2/15/2025	1,000,000	—	100,000	900,000

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds and Notes Payable

Year ended June 30, 2016

	Interest rates	Issue dates	Final maturity date	Balance June 30, 2015	Additions	Retired	Balance June 30, 2016
Golf Course Improvements	2.00%-5.00%	3/3/2015	2/15/2025	\$ 550,000	—	55,000	495,000
Sewer Reconstruction	2.00%-5.00%	3/3/2015	2/15/2025	23,985,000	—	2,450,000	21,535,000
Refinance Bonds (2005, 2006, 2007 and 2008)	2.00%-4.00%	3/4/2015	1/1/2028	38,105,000	—	—	38,105,000
School Building Renovations (Kennedy Longfellow)	2.00%-4.00%	3/1/2016	2/15/2026	—	2,500,000	—	2,500,000
Police Station Elevator Repairs	2.00%-4.00%	3/1/2016	2/15/2021	—	150,000	—	150,000
Harvard Square Kiosk Design	2.00%-4.00%	3/1/2016	2/15/2021	—	600,000	—	600,000
King Open and Cambridge St. Upper School and Community Complex	2.00%-4.00%	3/1/2016	2/15/2036	—	11,000,000	—	11,000,000
Building Renovation (344 Broadway and Street/Sidewalk Reconstruction	2.00%-4.00%	3/1/2016	2/15/2026	—	3,500,000	—	3,500,000
Harvard Square Reconstruction	2.00%-4.00%	3/1/2016	2/15/2026	—	4,000,000	—	4,000,000
Sewer Reconstruction	2.00%-4.00%	3/1/2016	2/15/2026	—	500,000	—	500,000
MCWT Loan (CWP-13-03 (A)	2.00%	2/11/2016	1/15/2026	—	12,740,000	—	12,740,000
				—	14,000,000	—	14,000,000
Total inside debt limit				<u>395,616,908</u>	<u>48,990,000</u>	<u>42,151,998</u>	<u>402,454,910</u>
Outside debt limit:							
Water:							
Water Series C 2007 Bonds	4.00%-5.00%	3/15/2007	8/1/2019	<u>10,140,000</u>	<u>—</u>	<u>2,420,000</u>	<u>7,720,000</u>
Total water				<u>10,140,000</u>	<u>—</u>	<u>2,420,000</u>	<u>7,720,000</u>
Housing Trust Fund:							
Note payable	2.00%	4/20/00 and 7/1/21	4/1/20 and 7/1/21	<u>3,542,451</u>	<u>—</u>	<u>598,057</u>	<u>2,944,394</u>
Total outside debt limit				<u>13,682,451</u>	<u>—</u>	<u>3,018,057</u>	<u>10,664,394</u>
Total debt outstanding				<u>\$ 409,299,359</u>	<u>48,990,000</u>	<u>45,170,055</u>	<u>413,119,304</u>

See accompanying independent auditors' report.



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(Date of Delivery)

Michele A. Kincaid, Acting Treasurer
City of Cambridge
Cambridge, Massachusetts

\$2,000,000*
City of Cambridge, Massachusetts
General Obligation Bonds, 2017 Series A (Minibond Program)
Dated March ____, 2017

We have acted as bond counsel to the City of Cambridge, Massachusetts (the “City”) in connection with the issuance by the City of the above-referenced bonds (the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the City contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the City and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the City, subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the City with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure by the City to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for

* Preliminary, subject to change.

federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

LOCKE LORD LLP

AM 65594643.1

**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Cambridge, Massachusetts (the “Issuer”) in connection with the issuance of its \$2,000,000* General Obligation Bonds, 2017 Series A (Minibond Program) dated March __, 2017 (the “Bonds”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Obligated Person” shall mean the Issuer.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in

* Preliminary, subject to change.

Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated March __, 2017 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth. If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give notice, in accordance with the provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other

material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

7. Modifications to rights of the Owners of the Bonds, if material.
8. Bond calls, if material, and tender offers.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person.*
13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: March __, 2017

CITY OF CAMBRIDGE,
MASSACHUSETTS

By: _____
Treasurer

City Manager

City Auditor

[EXHIBIT A: Filing Information for the MSRB]
[EXHIBIT B: Form of Notice of Failure to File Annual Report]

AM 65594645.1