

**WORCESTER REDEVELOPMENT AUTHORITY
(A COMPONENT UNIT OF THE
CITY OF WORCESTER, MASSACHUSETTS)**

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

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Independent Auditors' Report



Independent Auditors' Report

To the Board Members
Worcester Redevelopment Authority
Worcester, Massachusetts 01608

Report on the Financial Statements

We have audited the accompanying financial statements of the Worcester Redevelopment Authority (Authority), a component unit of the City of Worcester (City), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board Members
Worcester Redevelopment Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2018 and 2017, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 Information

Our audits were conducted for the purpose of forming an opinion on the Authority's financial statements as a whole. The additional information is presented for purposes of additional analysis and is not a required part of the financial statements.

The Statements of net position by program, and the Statements of revenues, expenses, and changes in net position by program is the responsibility of management and was derived from and relates 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 direct 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 additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2018 on our consideration of the Authority'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 the report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Boston, Massachusetts
November 12, 2018

Management's Discussion and Analysis

WORCESTER REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

As management of the Worcester Redevelopment Authority (the Authority), we offer readers of these financial statements this narrative overview and analysis of the Authority's financial activities for the fiscal years ended June 30, 2018 and 2017.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the current fiscal year by \$12,026,298 (net position).
- The Authority's total net position decreased \$1,723,050 in the current fiscal year.
- The Authority's total debt increased by \$788,731 during the current fiscal year; \$889,831 of new debt was issued in the current fiscal year.

Overview of the Basic Financial Statements

This discussion and analysis are intended to serve as an introduction to the *basic financial statements*, which consists of the following two components:

1. Financial statements (pages 11-13)
2. Notes to the basic financial statements (pages 14-21)

This report also contains additional information (pages 23-24) in addition to the basic financial statements.

The Authority reports its activity as a business-type activity using the full accrual basis of accounting. While established as an independent body politic managed by its members, for financial reporting purposes the Authority is considered as a component unit of the City of Worcester, Massachusetts (City). Therefore, the results of the Authority's operations, its net position and cash flows are also summarized in the City's Comprehensive Annual Financial Report in its government-wide financial statements.

The **Statements of Net Position** present information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The **Statements of Revenues, Expenses and Changes in Net Position**, present information showing how the Authority's net position changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal years.

The **Statements of Cash Flows** are reported on the direct method. The direct method of cash flow reporting portrays net cash flows from operations as major classes of operating receipts and disbursements.

The **Notes to Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements are presented separately.

The following pages present condensed financial information derived from the financial statements comparing fiscal years 2018, 2017 and 2016.

WORCESTER REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Authority's assets exceeded liabilities by \$12,026,298 at the close of the current fiscal year and are summarized as follows:

	2018	2017	2016
Assets			
Current assets.....	\$ 326,318	\$ 220,364	\$ 211,563
Capital assets (net).....	<u>26,397,710</u>	<u>26,699,966</u>	<u>27,316,409</u>
Total assets.....	<u>26,724,028</u>	<u>26,920,330</u>	<u>27,527,972</u>
Liabilities			
Current liabilities (excluding debt).....	3,755,090	3,016,142	2,658,962
Noncurrent liabilities (excluding debt).....	119,054	119,985	60,328
Current debt.....	10,177,765	9,517,579	8,965,729
Noncurrent debt.....	<u>645,821</u>	<u>517,276</u>	<u>527,483</u>
Total liabilities.....	<u>14,697,730</u>	<u>13,170,982</u>	<u>12,212,502</u>
Net Position			
Net investment in capital assets.....	22,234,560	22,745,249	23,361,705
Unrestricted.....	<u>(10,208,262)</u>	<u>(8,995,901)</u>	<u>(8,046,235)</u>
Total net position.....	<u>\$ 12,026,298</u>	<u>\$ 13,749,348</u>	<u>\$ 15,315,470</u>

2018

At June 30, 2018, the majority of the Authority's net position reflects its net investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements and equipment), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net position at June 30, 2018 represents a deficit in unrestricted net position (\$10,208,262).

2017

At June 30, 2017, the majority of the Authority's net position reflects its net investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements and equipment), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of net position at June 30, 2017 represents a deficit in unrestricted net position (\$8,995,901).

WORCESTER REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

Changes in Net Position

For the fiscal year ended June 30, 2018, the Authority's total net position decreased by \$1,723,050, compared to a decrease of \$1,566,122 in the prior fiscal year and a decrease of \$1,874,056 in fiscal year 2016. These amounts are summarized as follows:

	2018	2017	2016
Revenues			
Operating Revenues:			
Tenant income.....	\$ 396,807	\$ 508,771	\$ 492,045
Total operating revenues.....	396,807	508,771	492,045
Expenses			
Operating Expenses:			
Office operations.....	561,124	389,197	401,722
Property management.....	50,087	47,174	45,666
Consulting and other contracted services.....	71,503	110,148	232,759
General insurance.....	16,794	16,504	15,752
Property maintenance.....	421,606	402,529	320,359
Utilities.....	240,591	230,628	267,182
Depreciation.....	1,045,104	1,044,827	1,035,934
Parking expense.....	72,990	83,520	76,800
Other.....	1,517	2,207	1,606
Total operating expenses.....	2,481,316	2,326,734	2,397,780
Operating income (loss).....	(2,084,509)	(1,817,963)	(1,905,735)
Non-Operating Revenues (Expenses):			
Investment income.....	114	224	147
Interest expense.....	(387,902)	(239,171)	(341,676)
Gain on sale of capital assets.....	27,300	-	9,000
Contributions to the City of Worcester.....	-	-	(100,000)
Total nonoperating revenues (expenses).....	(360,488)	(238,947)	(432,529)
(Loss) before capital grants and contributions.....	(2,444,997)	(2,056,910)	(2,338,264)
Capital grants and contributions.....	721,947	490,788	464,208
Change in net position.....	(1,723,050)	(1,566,122)	(1,874,056)
Net position - beginning of year.....	13,749,348	15,315,470	17,189,526
Net position - end of year.....	\$ 12,026,298	\$ 13,749,348	\$ 15,315,470

WORCESTER REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

2018

The Authority's net position decreased \$1,723,050. In the prior year, the Authority's net position decreased \$1,566,122. The key element of this change relates to an increase in office operations expenses, primarily related to janitorial and security services.

2017

The Authority's net position decreased \$1,566,122. In the prior year, the Authority's net position decreased \$1,874,056. The key element of this change relates to non-recurring contributions made to the City of Worcester in 2016.

Capital Asset and Debt Administration

Capital assets

The Authority's capital assets at the end of the current fiscal year totaled \$26,397,710 (net of accumulated depreciation). Capital assets include; land, construction in progress, land improvements, buildings and improvements and equipment. The total decrease in capital assets for the current fiscal year totaled \$302,256 or 1.1%.

The following table summarizes the Authority's capital assets (net of accumulated depreciation):

	<u>2018</u>		<u>2017</u>		<u>2016</u>
Land.....	\$ 1,054,569	\$	1,128,369	\$	1,128,369
Land improvements.....	36,076		41,292		46,508
Buildings and improvements.....	23,424,938		24,460,991		25,196,068
Equipment.....	49,261		42,287		-
Construction in progress.....	<u>1,832,866</u>		<u>1,027,027</u>		<u>945,464</u>
Total capital assets.....	<u>\$ 26,397,710</u>	\$	<u>26,699,966</u>	\$	<u>27,316,409</u>

Additional information on the Authority's capital assets can be found in Note 4 of this report.

Debt

At the end of the current fiscal year, total debt outstanding was \$10,823,586, consisting of notes payable to the City. In fiscal years' 2017 and 2016, total debt outstanding was \$10,034,855 and \$9,493,212, respectively, also consisting of notes payable to the City.

The Authority's total debt increased \$788,731 (7.9%) during the current fiscal year, with \$889,831 of new note issuances during the year.

Additional information on the Authority's long-term debt can be found in Note 5 of this report.

WORCESTER REDEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

Economic Factors

The Worcester Redevelopment Authority (WRA), a political subdivision of the Commonwealth, has served as an economic catalyst for the City of Worcester since its incorporation in 1957. It was instrumental in the East Central Urban Renewal Plan, which led to the construction of the Galleria, the amendment to the East Central Urban Renewal Plan, which led to the construction of the relocation of St. Vincent's hospital from its Vernon Hill campus to its current 22+ acre downtown location. Additionally, the WRA was the vehicle in which the former vacant Union Station building was transformed into an 80,000 square foot intermodal transportation hub, which recently culminated with the completion of the \$18 million Worcester Regional Transit Authority (WRTA) administrative office and bus "hub"/transfer station on June 1, 2014 which in turn allowed access to federal funds for improvements to Union Station.

These investments in public transit (inclusive of the Commonwealth's acquisition of CSX rail lines) and infrastructure have changed the landscape of the Washington Square area of the City and have fostered economic growth in the immediate area. A parcel diagonal to the Union Station facility, which was partially created by the reconstruction of Washington Square, coupled with privately held parcels, has been developed with the construction of a new 119 room hotel, Homewood Suites by Hilton. Immediately adjacent to Union Station is the Osgood Bradley building, an underutilized 160,000 square foot commercial building constructed in 1914, which the present owner is currently pursuing the conversion to an 84 unit apartment complex. An additional 350 housing units have also been recently completed in the immediate area of Union Station.

To coincide with these private investments, the WRA has embarked on a \$6.8 million capital improvement program to enhance the Union Station facility and its environs partially funded with Fixed Guideways Funds from the Federal Transportation Administration which are being accessed through the WRTA. Said funds are subject to a 20% local match for eligible projects.

In fiscal year 2018, the WRA had a myriad of activity occur not only relating to the Union Station facility but the Urban Renewal project and project area. First, two of the Union Station tenants announced that they had outgrown their respective leased area and would not seek to extend their respective leases. Independent of this activity, the Commonwealth of Massachusetts Cannabis Control Commission announced it was seeking responses to a Request for Proposal (RFP) for office space in the Worcester area. The WRA board authorized a response to the solicitation of the Commonwealth which has been subsequently awarded to the WRA to lease the space vacated by the two former tenants on the second floor of Union Station.

Additionally, the WRA conveyed to the City a parcel of land in its portfolio for the creation of a dog park in the downtown area. This transaction is noteworthy beyond the creation of this amenity in the core of the downtown area in that the transaction was the first repayment of the accrued liability due to the City. In fiscal year 2018 the WRA also took steps to divest of additional parcels in the Washington Square area which in turn will spur development in the immediate area around Union Station.

Finally, subsequent to the close of fiscal year 2018, the City announced it had reached an agreement with the ownership of the Triple A affiliate of the Boston Red Sox to construct a \$94.5M ballpark, primarily within the Urban Renewal project area. Since the facility to be constructed is within the boundaries of the urban renewal area, the City has amended the cooperation agreement with the WRA to facilitate the construction of the ballpark.

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Administration & Finance, Budget Division, Chief Financial Officer, Worcester Redevelopment Authority, 455 Main Street, Worcester, Massachusetts, 01608.

Basic Financial Statements

WORCESTER REDEVELOPMENT AUTHORITY
STATEMENTS OF NET POSITION

JUNE 30, 2018 AND 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents.....	\$ 16,333	\$ 16,591
Restricted cash and cash equivalents.....	159	8,410
Receivables, net of allowance for uncollectible amounts:		
Grants, contracts and other.....	307,711	193,248
Prepaid expenses.....	<u>2,115</u>	<u>2,115</u>
Total current assets.....	<u>326,318</u>	<u>220,364</u>
Noncurrent assets:		
Capital assets not being depreciated.....	2,887,435	2,155,396
Capital assets, net of accumulated depreciation.....	<u>23,510,275</u>	<u>24,544,570</u>
Total noncurrent assets.....	<u>26,397,710</u>	<u>26,699,966</u>
Total assets.....	<u>26,724,028</u>	<u>26,920,330</u>
LIABILITIES		
Current liabilities:		
Accounts payable.....	720,412	359,313
Other liabilities.....	20,048	31,032
Accrued interest.....	3,014,630	2,625,797
Notes payable to the City of Worcester.....	<u>10,177,765</u>	<u>9,517,579</u>
Total current liabilities.....	<u>13,932,855</u>	<u>12,533,721</u>
Noncurrent liabilities:		
Accrued interest.....	119,054	119,985
Notes payable to the City of Worcester.....	<u>645,821</u>	<u>517,276</u>
Total noncurrent liabilities.....	<u>764,875</u>	<u>637,261</u>
Total liabilities.....	<u>14,697,730</u>	<u>13,170,982</u>
NET POSITION		
Net investment in capital assets.....	22,234,560	22,745,249
Unrestricted.....	<u>(10,208,262)</u>	<u>(8,995,901)</u>
Total net position.....	<u>\$ 12,026,298</u>	<u>\$ 13,749,348</u>

The accompanying notes are an integral part of the financial statements.

WORCESTER REDEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Tenant income.....	\$ 396,807	\$ 508,771
TOTAL OPERATING REVENUES.....	396,807	508,771
OPERATING EXPENSES		
Office operations.....	561,124	389,197
Property management.....	50,087	47,174
Consulting and other contracted services.....	71,503	110,148
General insurance.....	16,794	16,504
Property maintenance.....	421,606	402,529
Utilities.....	240,591	230,628
Depreciation.....	1,045,104	1,044,827
Parking expense.....	72,990	83,520
Other.....	1,517	2,207
TOTAL OPERATING EXPENSES.....	2,481,316	2,326,734
OPERATING (LOSS).....	(2,084,509)	(1,817,963)
NONOPERATING REVENUES (EXPENSES)		
Investment income.....	114	224
Interest expense.....	(387,902)	(239,171)
Gain on sale of capital assets.....	27,300	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(360,488)	(238,947)
(LOSS) BEFORE CAPITAL GRANTS AND CONTRIBUTIONS....	(2,444,997)	(2,056,910)
Capital grants and contributions.....	721,947	490,788
CHANGE IN NET POSITION.....	(1,723,050)	(1,566,122)
NET POSITION AT BEGINNING OF YEAR.....	13,749,348	15,315,470
NET POSITION AT END OF YEAR.....	\$ 12,026,298	\$ 13,749,348

The accompanying notes are an integral part of the financial statements.

WORCESTER REDEVELOPMENT AUTHORITY
STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users.....	\$ 282,344	\$ 487,020
Payments to vendors.....	(1,086,097)	(1,104,241)
NET CASH USED FROM OPERATING ACTIVITIES.....	(803,753)	(617,221)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from the issuance of notes - operating.....	645,817	517,276
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES.....	645,817	517,276
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Intergovernmental revenue.....	721,947	490,788
Proceeds from the issuance of notes - capital.....	244,014	24,367
Acquisition and construction of capital assets.....	(816,648)	(428,384)
Principal payments on bonds and notes.....	(101,100)	
Proceeds from sale of capital assets.....	101,100	-
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES.....	149,313	86,771
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income.....	114	224
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(8,509)	(12,950)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Includes \$8,410 reported as restricted).....	25,001	37,951
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$159 reported as restricted).....	\$ 16,492	\$ 25,001
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES		
Operating (loss).....	\$ (2,084,509)	\$ (1,817,963)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Adjustments not requiring current cash flows:		
Depreciation.....	1,045,104	1,044,827
Adjustments requiring current cash flows:		
Accounts receivable.....	(114,463)	(21,751)
Accounts payable.....	361,099	177,651
Other liabilities.....	(10,984)	15
Total adjustments.....	1,280,756	1,200,742
NET CASH USED FROM OPERATING ACTIVITIES.....	\$ (803,753)	\$ (617,221)

The accompanying notes are an integral part of the financial statements.

WORCESTER REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The Worcester Redevelopment Authority (Authority), a component unit of the City of Worcester, Massachusetts (City), was established in 1957 pursuant to Chapter 121B of the Massachusetts General Laws (MGL). The Authority's mission is to identify and implement Urban Renewal Area Plans within the City. The Authority has a five member volunteer Board of Directors, four of whom are appointed by the City's Manager and confirmed by the City's Council. The Governor of the Commonwealth of Massachusetts (Commonwealth) appoints the fifth member of the Board. Members serve five-year terms.

On December 14, 2000, the Authority amended its by-laws to establish the Chief Development Officer of the City as its Chief Executive Officer, the City Solicitor as its Chief Legal Officer, and the City Budget Director as its Chief Financial Officer. Under the by-law amendment, the officers of the Authority include a Chair, Vice-Chair and Secretary. The duties and responsibilities previously vested in the Board's Treasurer and Vice-Treasurer were transferred to the Chief Financial Officer. The amendment also authorizes the City's Manager to assign additional City personnel to administer the programs and operations of the Authority and it provides that all City officers and employees engaged in the service of the Authority shall serve ex-officio and without direct compensation.

The Authority owns Union Station, a 65,000 square foot two-story building, which serves as the train station terminal for Amtrak intercity passenger rail and MBTA commuter rail service to and from Boston. In August 2006, the bus port terminal commenced operations with Greyhound Bus lines acting as the lead tenant offering interstate transit service. Adjacent to Union Station is a 500 space parking facility that includes 7,000 square feet of retail space.

C. Implementation of New Accounting Principles

For the year ending June 30, 2018, the Authority implemented the following pronouncements issued by the GASB:

- GASB Statement No. 75, *Accounting and financial Reporting for Postemployment Benefits Other than Pensions*
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*
- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*

The implementation of these GASB Statements had no reporting impact for the Authority.

WORCESTER REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus, Basis of Accounting and Basis of Presentation

The Authority's financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Operating revenues and expenses are segregated from nonoperating items. Operating revenues and expenses consist of those revenues and expenses that result from the principal operations of the Authority. Operating revenues consist primarily of tenant rental revenues and parking fees charged to users of Union Station.

Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type activities and result from nonexchange transactions or ancillary activities.

E. Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

G. Capital Assets

The Authority's capital assets consist of land, construction in progress, land improvements, buildings and improvements and equipment. Capital assets are recorded at historical cost. Donated capital assets are recorded at the estimated fair market value at the date of donation. All purchases and construction costs are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. For the fiscal year ended June 30, 2018, such interest is not material and therefore is not included as part of capital assets.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	10 - 20
Buildings and improvements....	39
Equipment.....	3 - 5

WORCESTER REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

H. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenses during the fiscal year. Actual results could vary from estimates that were used.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The Authority does not have a policy for custodial credit risk of deposits. As of June 30, 2018, none of the Authority's bank balance of \$16,489 was uninsured and uncollateralized. As of June 30, 2017, none of the Authority's bank balance of \$27,549 was uninsured and uncollateralized.

NOTES 3 - ACCOUNTS RECEIVABLE

At June 30, 2018 and 2017, grants, contracts and other receivables totaled \$307,711 and \$193,248, respectively. All amounts are considered 100% collectible.

WORCESTER REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,128,369	\$ -	\$ (73,800)	\$ 1,054,569
Construction in progress.....	1,027,027	805,839	-	1,832,866
Total capital assets not being depreciated.....	2,155,396	805,839	(73,800)	2,887,435
<u>Capital assets being depreciated:</u>				
Land improvements.....	108,871	-	-	108,871
Buildings and improvements.....	40,501,428	2,509	-	40,503,937
Equipment.....	111,261	8,300	-	119,561
Total capital assets being depreciated.....	40,721,560	10,809	-	40,732,369
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(67,579)	(5,216)	-	(72,795)
Buildings and improvements.....	(16,040,437)	(1,038,562)	-	(17,078,999)
Equipment.....	(68,974)	(1,326)	-	(70,300)
Total accumulated depreciation.....	(16,176,990)	(1,045,104)	-	(17,222,094)
Total capital assets being depreciated, net.....	24,544,570	(1,034,295)	-	23,510,275
Total capital assets, net.....	\$ 26,699,966	\$ (228,456)	\$ (73,800)	\$ 26,397,710

WORCESTER REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,128,369	\$ -	\$ -	\$ 1,128,369
Construction in progress.....	945,464	384,984	(303,421)	1,027,027
Total capital assets not being depreciated.....	2,073,833	384,984	(303,421)	2,155,396
<u>Capital assets being depreciated:</u>				
Land improvements.....	108,871	-	-	108,871
Buildings and improvements.....	40,198,007	303,421	-	40,501,428
Equipment.....	67,861	43,400	-	111,261
Total capital assets being depreciated.....	40,374,739	346,821	-	40,721,560
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(62,363)	(5,216)	-	(67,579)
Buildings and improvements.....	(15,001,939)	(1,038,498)	-	(16,040,437)
Equipment.....	(67,861)	(1,113)	-	(68,974)
Total accumulated depreciation.....	(15,132,163)	(1,044,827)	-	(16,176,990)
Total capital assets being depreciated, net.....	25,242,576	(698,006)	-	24,544,570
Total capital assets, net.....	\$ 27,316,409	\$ (313,022)	\$ (303,421)	\$ 26,699,966

NOTE 5 - NOTES PAYABLE

On March 24, 1997, the Authority and City entered into a Cooperation Agreement (Agreement) concerning funding initiatives of the Authority.

On December 14, 2000, the Authority voted to authorize the execution of any legal document in any effort to secure the repayment to the City of any funds the City may provide to finance the Authority's initiatives.

Pursuant to the Agreement and the vote of the Authority on December 14, 2000, the Authority and City have executed several amendments to the Agreement whereby the City has agreed to loan the Authority various amounts at varying interest rates (ranging from 2.89% to 4.90%) and maturity dates.

The loans are reflected as notes payable to the City of Worcester on the financial statements. The loans classified as current liabilities include notes payable that, by their terms, are due within one year from the balance sheet date, even though liquidation may not be expected within that period.

WORCESTER REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

NOTE 5 - NOTES PAYABLE (CONTINUED)

Details related to notes payable to the City at June 30, 2018, are as follows:

Project	Outstanding at June 30, 2017	Issued	Redeemed	Outstanding at June 30, 2018
Union Station - Building Fit Out.....	\$ 3,470,759	\$ 208,444	\$ (101,100)	\$ 3,578,103
Union Station - Operating.....	5,751,628	645,817	-	6,397,445
Union Station - Bus Ports.....	483,944		-	483,944
General and Administrative.....	78,897		-	78,897
Urban Renewal.....	249,627	35,570	-	285,197
Total.....	<u>\$ 10,034,855</u>	<u>\$ 889,831</u>	<u>\$ (101,100)</u>	<u>\$ 10,823,586</u>

Details related to notes payable to the City at June 30, 2017, are as follows:

Project	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
Union Station - Building Fit Out.....	\$ 3,470,759	\$ -	\$ -	\$ 3,470,759
Union Station - Operating.....	5,234,352	517,276	-	5,751,628
Union Station - Bus Ports.....	483,944	-	-	483,944
General and Administrative.....	78,897	-	-	78,897
Urban Renewal.....	225,260	24,367	-	249,627
Total.....	<u>\$ 9,493,212</u>	<u>\$ 541,643</u>	<u>\$ -</u>	<u>\$ 10,034,855</u>

As of June 30, 2018, debt service requirements in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2019.....	10,177,768	\$ 3,153,526	\$ 13,331,294
2020.....	645,818	19,842	665,660
Total.....	<u>10,823,586</u>	<u>\$ 3,173,368</u>	<u>\$ 13,996,954</u>

As of June 30, 2017, debt service requirements in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2018.....	\$ 9,517,579	\$ 2,765,780	\$ 12,283,359
2019.....	517,276	19,998	537,274
Total.....	<u>\$ 10,034,855</u>	<u>\$ 2,785,778</u>	<u>\$ 12,820,633</u>

WORCESTER REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

NOTE 5 - NOTES PAYABLE (CONTINUED)

At June 30, 2018 and 2017, notes payable to the City totaling \$9,517,579 and \$8,965,729, respectively, had matured but were not liquidated by the Authority.

NOTE 6 - RISK FINANCING

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance.

NOTE 7 - OPERATING LEASES

The Authority leases property under various operating leases. Total revenues from such leases were \$396,807 and \$508,771 for the fiscal years ended June 30, 2018 and 2017, respectively, and are reported as tenant income in the Statements of Revenues, Expenses and Changes in Net Position.

Future minimum lease payments as of June 30, 2018, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2019.....	\$ 198,971
2020.....	175,954
2021.....	177,970
2022.....	167,687
2023.....	169,825
Thereafter.....	<u>233,763</u>
Total.....	\$ <u><u>1,124,171</u></u>

Future minimum lease payments as of June 30, 2017, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2018.....	\$ 349,454
2019.....	65,239
2020.....	67,196
2021.....	69,212
2022.....	71,288
Thereafter.....	<u>307,190</u>
Total.....	\$ <u><u>929,578</u></u>

WORCESTER REDEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDING JUNE 30, 2018 AND 2017

NOTE 8 - RELATED PARTY TRANSACTIONS

The transactions between the Authority and the City during the fiscal year ended June 30, 2018 and 2017 consisted of loans from the City to the Authority in the amount of \$889,831 (\$645,817 of operating loans and \$244,014 of capital loans) and \$541,643 (\$517,276 of operating loans and \$24,367 of capital loans) respectively. The Authority has outstanding notes payable to the City totaling \$10,823,586 and \$10,034,855 at June 30, 2018 and 2017, respectively.

In addition, the Authority sold a parcel of land to the City during the fiscal year ended June 30, 2018 in the amount of \$101,100.

NOTE 9 - IN-KIND ASSISTANCE AND ECONOMIC DEPENDENCY

The City has made available to the Authority the services of the agencies, offices and employees of the City, including administrative, accounting, environmental, planning, legal and intergovernmental coordination services. The Authority is not able to reasonably estimate the value of these services. As such, no amounts for in-kind assistance have been recorded in the financial statements.

Approximately 44.6% (\$889,831) and 35.6% (\$541,643) of the Authority's cash inflows for the fiscal years ended June 30, 2018 and 2017, respectively, were from the issuance of notes by the City.

Additional Information

WORCESTER REDEVELOPMENT AUTHORITY
STATEMENTS OF NET POSITION BY PROGRAM

JUNE 30, 2018 AND 2017

	Program			Totals	
	Union Station Operating	Urban Renewal Operating	General Operating	2018	2017
ASSETS					
Current assets:					
Cash and cash equivalents.....	\$ 16,333	\$ -	\$ -	\$ 16,333	\$ 16,591
Restricted cash and cash equivalents.....	159	-	-	159	8,410
Receivables, net of allowance for uncollectible amounts:					
Grants, contracts and other.....	307,711	-	-	307,711	193,248
Prepaid expenses.....	2,115	-	-	2,115	2,115
Total current assets.....	326,318	-	-	326,318	220,364
Noncurrent assets:					
Due from (to) other programs.....	780,481	-	(780,481)	-	-
Capital assets not being depreciated.....	2,372,635	-	514,800	2,887,435	2,155,396
Capital assets, net of accumulated depreciation.....	23,510,275	-	-	23,510,275	24,544,570
Total noncurrent assets.....	26,663,391	-	(265,681)	26,397,710	26,699,966
Total assets.....	26,989,709	-	(265,681)	26,724,028	26,920,330
LIABILITIES					
Current liabilities:					
Accounts payable.....	720,412	-	-	720,412	359,313
Other liabilities.....	20,048	-	-	20,048	31,032
Accrued interest.....	3,014,630	-	-	3,014,630	2,625,797
Notes payable to the City of Worcester.....	9,813,671	285,197	78,897	10,177,765	9,517,579
Total current liabilities.....	13,568,761	285,197	78,897	13,932,855	12,533,721
Noncurrent liabilities:					
Accrued interest.....	119,054	-	-	119,054	119,985
Notes payable to the City of Worcester.....	645,821	-	-	645,821	517,276
Total noncurrent liabilities.....	764,875	-	-	764,875	637,261
Total liabilities.....	14,333,636	285,197	78,897	14,697,730	13,170,982
NET POSITION					
Net investment in capital assets.....	21,719,760	-	514,800	22,234,560	22,745,249
Unrestricted.....	(9,063,687)	(285,197)	(859,378)	(10,208,262)	(8,995,901)
Total net position.....	\$ 12,656,073	(285,197)	\$ (344,578)	\$ 12,026,298	\$ 13,749,348

WORCESTER REDEVELOPMENT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY PROGRAM

FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	Program			Totals	
	Union Station Operating	Urban Renewal Operating	General Operating	2018	2017
OPERATING REVENUES					
Tenant income.....	\$ 396,807	\$ -	\$ -	\$ 396,807	\$ 508,771
OPERATING EXPENSES					
Office operations.....	561,124	-	-	561,124	389,197
Property management.....	50,087	-	-	50,087	47,174
Consulting and other contracted services.....	17,933	35,570	18,000	71,503	110,148
General insurance.....	16,794	-	-	16,794	16,504
Property maintenance.....	421,606	-	-	421,606	402,529
Utilities.....	240,591	-	-	240,591	230,628
Depreciation.....	1,045,104	-	-	1,045,104	1,044,827
Parking expense.....	72,990	-	-	72,990	83,520
Other	1,517	-	-	1,517	2,207
TOTAL OPERATING EXPENSES.....	2,427,746	35,570	18,000	2,481,316	2,326,734
OPERATING (LOSS).....	(2,030,939)	(35,570)	(18,000)	(2,084,509)	(1,817,963)
NONOPERATING REVENUES (EXPENSES)					
Investment income.....	-	-	114	114	224
Interest expense.....	(387,902)	-	-	(387,902)	(239,171)
Gain (loss) on disposal of capital assets.....	-	-	27,300	27,300	-
Contributions to the City of Worcester.....	-	-	-	-	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET...	(387,902)	-	27,414	(360,488)	(238,947)
(LOSS) BEFORE CAPITAL GRANTS AND CONTRIBUTIONS.....	(2,418,841)	(35,570)	9,414	(2,444,997)	(2,056,910)
Capital grants and contributions.....	721,947	-	-	721,947	490,788
CHANGE IN NET POSITION.....	(1,696,894)	(35,570)	9,414	(1,723,050)	(1,566,122)
NET POSITION AT BEGINNING OF YEAR.....	14,352,967	(249,627)	(353,992)	13,749,348	15,315,470
NET POSITION AT END OF YEAR.....	\$ 12,656,073	(285,197)	\$ (344,578)	\$ 12,026,298	\$ 13,749,348