

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

Report on Examination of
Basic Financial Statements
And Additional Information
Year Ended December 31, 2014

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended December 31, 2014

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

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Cambridge Redevelopment Authority
Cambridge, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Cambridge Redevelopment Authority (the "Authority"), a component unit of the City of Cambridge, Massachusetts, as of and for the year ended December 31, 2014, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2014, and the respective changes in financial position and, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedules of proportionate share of net pension liability and contribution to pension plan, the schedules of funding progress and contributions for other postemployment benefits be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Expense Allocation – Project Costs Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Implementation of New Accounting Standards

As disclosed in the Note H to the financial statements, the Authority early implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, during the fiscal year 2014.

Other Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015, 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 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 consideration of the Authority's internal control over financial reporting and compliance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Cambridge Redevelopment Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended December 31, 2014. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$10,057,341 (*total net position*). This entire amount may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's assets are primarily comprised of cash and investments of \$10,433,274, or approximately 96.9% of total assets at December 31, 2014. Short and long-term development projects held for sale totaled \$302,126, or approximately 2.8%; remaining amounts are insignificant.
- The Authority's total net position decreased by \$856,858. This was mostly due to operating revenues of \$39,249 primarily consisting of charges for services in 2014, resulting in being less than the Authority's operating expenses in 2014 by \$936,878. Additionally, nonoperating revenues of \$80,040 were comprised of investment income.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of two parts: management's discussion and analysis and the basic financial statements. The financial statements also include notes that explain information in the financial statements in more detail. The Authority is a component unit of the City of Cambridge and is a self-supporting entity that follows enterprise fund reporting. Accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Authority. These statements are presented in a manner similar to a private business, such as a real estate development company.

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

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

The *statement of cash flows* presents information on the Authority's cash receipts, cash payments and changes in cash resulting from operations, investments and financing activities.

New Significant Accounting Standards Implemented – In fiscal year 2014 the Authority adopted two new statements of financial accounting standards issued by the Governmental Accounting Standards board (GASB) that relate to pension activity:

- Statement No. 68, “*Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,*” and
- Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*”

Statement No. 68 (Statement) establishes standards of accounting and financial reporting, but not funding or budgetary standards, for the Authority’s defined benefit pension plans. This statement replaces the requirements of prior GASB statements impacting accounting and disclosure of pensions. The significant impact to the Authority of implementing Statement No. 68 is the reporting of the Authority’s unfunded pension liability on the Authority’s full accrual basis of accounting government-wide financial statements. There are also new note disclosure requirements and supplementary schedules required by the Statement.

In order to implement the Statement, a prior period adjustment was made to the Authority’s December 31, 2014 net position. This prior period adjustment decreased the Authority’s net position by \$107,079 from \$11,021,258 to \$10,914,179 and reflects the reporting of: 1) net pension liabilities, 2) deferred outflows of resources, and 3) deferred inflows of resources.

The calculation of pension contributions is also unaffected by this Statement.

FINANCIAL ANALYSIS

Exhibit I - Net Position

	December 31, 2014	December 31, 2013
<u>Assets</u>		
Current and other assets	\$ 10,763,951	\$ 11,466,329
Total assets	<u>10,763,951</u>	<u>11,466,329</u>
<u>Deferred Outflows of Resources</u>	<u>6,978</u>	<u>-</u>
<u>Liabilities</u>		
Long-term liabilities	623,975	438,280
Other liabilities	65,103	6,791
Total liabilities	<u>689,078</u>	<u>445,071</u>
<u>Deferred Inflows of Resources</u>	<u>24,510</u>	<u>-</u>
<u>Net Position</u>		
Unrestricted	<u>10,057,341</u>	<u>11,021,258</u>
Net Position	<u>\$ 10,057,341</u>	<u>\$ 11,021,258</u>

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial condition. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,057,341 at the close of the most recent fiscal year. The Authority's net position is categorized as unrestricted. Accordingly, the entire net position amount is available for spending on future development projects and administrative costs as determined and directed by the Authority's Board of Directors.

Exhibit II - Changes in Net Position

	Year Ended December 31,	
	2014	2013
<u>Revenues:</u>		
Program revenues:		
Charges for services	\$ 39,249	\$ 12,578
Sale of developer rights	-	699,610
Investment income and other	80,040	83,199
Total revenues	<u>119,289</u>	<u>795,387</u>
<u>Expenses:</u>		
Administrative	507,502	461,705
Professional services	59,911	296,078
Project consulting	377,877	46,854
Property maintenance	30,837	27,112
Total expenses	<u>976,127</u>	<u>831,749</u>
Change in net position	(856,838)	(36,362)
Net position - beginning of year, as restated	11,021,258	11,057,620
Prior period adjustment	(107,079)	-
Net position, beginning of year, as restated	<u>10,914,179</u>	<u>11,057,620</u>
Net position - end of year	<u>\$ 10,057,341</u>	<u>\$ 11,021,258</u>

The Authority's total net position at December 31, 2014, decreased \$856,838 from the prior year. Operating revenues of \$39,249 primarily consisted of charges for services in 2014; this represented a \$936,878 reduction in operating revenues from the prior year. Such fluctuations resulting from changes in development fees generated are part of the expected, ordinary course of business for the Authority as these revenues are largely predicated on the desire of other entities to build or expand building space within the Kendall Square Urban Renewal District overseen by the Authority. Project development activities by those entities can vary widely and may be predicated on demand for more space by existing or newly attracted commercial lessees, or through speculation of future space needs based on current trends. During the fiscal year there were no sales of developer rights by the Authority. Non-operating revenues totaled \$80,040 in 2014 and consisted entirely of interest earned on the Authority's investments. The Authority invests its excess cash resources in certificates of deposit with Massachusetts-based banks.

The Authority's operating expenses in 2014 were \$976,127 and exceeded operating revenues by \$936,878. Current year expenses were significantly increased by \$144,378 in comparison to previous year amounts. The significant increase from the prior year was due mainly to allocated project costs that started during the fiscal year including projects for grand junction, K2 zoning, MXD design, foundry and other small various projects.

The restatement and prior period adjustment impacts are detailed in Note H. However, they can be summarized as the restatement increased development projects held for sale by \$66,997 for land parcels belonging to the Authority which had not been previously identified. Additionally, the prior period adjustment is related to the recognition of the accumulated net pension liability through December 31, 2014 of \$107,079.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Authority's capital assets are not significant at December 31, 2014. The Authority held \$302,126 in development projects held for sale. These were classified as long-term assets since they are not expected to be liquidated within 12 months of year-end.

As of December 31, 2014, the Authority did not have any outstanding debt. The Authority maintains an active line of credit totaling \$5,000.

ECONOMIC FACTORS AND NEXT YEAR ACTIVITY

The Authority will continue to manage and assist with development within the Kendall Square Urban Renewal District as provided within its authority and mandate. Additionally, the Authority may look to explore beyond the existing District to other areas of the City where the Authority may assist with redevelopment projects. The Authority will make this possible through funds from the sale of development rights, as well as potential grants or other funding sources as they become available.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, Cambridge Redevelopment Authority, 255 Main Street, 4th Floor, Cambridge, MA 02142.

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

STATEMENT OF NET POSITION
DECEMBER 31, 2014

Assets:

Current assets:

Cash and cash equivalents	\$	7,181,788
Investments		3,251,486
Accounts receivable		21,245
Other assets		7,306
Total current assets		10,461,825

Noncurrent assets:

Development projects held for sale		302,126
Total noncurrent assets		302,126

Total Assets		10,763,951
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Deferred Outflows of Resources:

Net difference - projected and actual earnings on pension investments		6,978
Total Deferred Outflows of Resources		6,978

Liabilities:

Current liabilities:

Accounts payable		65,103
Total current liabilities		65,103

Noncurrent liabilities:

Compensated absences		3,507
Net pension liability		78,667
Other postemployment benefits		541,801
Total noncurrent liabilities		623,975

Total Liabilities		689,078
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Deferred Inflows of Resources:

Changes in pension proportion and differences		24,510
Total Deferred Inflows of Resources		24,510

Net Position:

Unrestricted net assets		10,057,341
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Total Net Position		\$ 10,057,341
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See accompanying notes to basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2014

Operating Revenues:

Rental income	\$ 12,012
Other income	27,237
Total Operating Revenues	<u>39,249</u>

Operating Expenses:

Administrative	507,502
Professional services	59,911
Project consulting	377,877
Property maintenance	30,837
Total Operating Expenses	<u>976,127</u>

Operating Income (936,878)

Nonoperating Revenues:

Investment income	<u>80,040</u>
Total Nonoperating Revenues	<u>80,040</u>

Change in Net Position (856,838)

Net Position - Beginning of year, as restated 10,914,179

Net Position - End of year \$ 10,057,341

See accompanying notes to basic financial statements.

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

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014

Cash Flows from Operating Activities:

Rental income and other receipts	\$ 22,420
Payments to vendors	(619,762)
Payments for wages and benefits	(201,905)
	(799,247)
Net cash provided by operating activities	(799,247)

Cash Flows from Investing Activities:

Net transfers to investments	2,685,874
Investment income	80,040
	2,765,914
Net cash provided by investing activities	2,765,914

Net Change in Cash and Cash Equivalents 1,966,667

Cash and Cash Equivalents:

Beginning of year	5,215,121
	5,215,121
End of year	\$ 7,181,788
	\$ 7,181,788

Reconciliation of Operating Income to Net Cash Provided By Operating Activities:

Operating income	\$ (936,878)
Changes in assets, deferred inflows of resources, liabilities, and deferred outflows of resources	
Accounts receivable	(16,828)
Other assets	-
Deferred outflows of resources	(6,978)
Accounts payable and accrued expenses	58,312
Net pension benefits	(28,413)
Other postemployment benefits	107,028
Deferred inflows of resources	24,510
	24,510
Net cash provided by operating activities	\$ (799,247)

See accompanying notes to basic financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE A – REPORTING ENTITY

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

The Authority is a component unit of the City; however, the City has elected not to include the Authority’s financial position and results of operations in its financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In 2015, the Authority implemented GASB No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB No.71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*. As of a result of the implementation, the basic financial statements were restated to recognize the defined benefit pension long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual cost of pension benefits. These statements also enhance accountability and transparency through revised and new note disclosures and required supplementary information.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units.

Following are the accounting and reporting policies of the Authority:

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

Use of Estimates – The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Revenue Recognition – Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Major revenue sources may include gains on property or developer rights held for sale.

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

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

Investments – Investments are monetary holdings with varying maturity periods of greater than three months and liquidity levels; additionally the principal and/or the investment earnings may be subject to market loss or fees.

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

Development Projects Held For Sale – The Authority is the owner of certain properties (real estate - improved and land) within its project development area. Generally, properties are acquired in connection with specified development projects and the costs associated with the acquisition of properties are recorded as property held for sale. Use of the proceeds from the rental and ultimate disposition of the properties is restricted for allowable project costs. The total value of these assets as of December 31, 2014, was \$302,126.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then. The Authority has one item that are reported on the Statement of Net Position, this item relates to the net differences between projected and actual investment earnings on pension investments.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies as an inflow of resource. This item relates to changes in proportion and differences between employer contributions and proportionate share of contributions.

Capital Assets – Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. All purchases and construction costs in excess of \$1,000 and with useful lives exceeding one year are capitalized at the date of acquisition or construction. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets (excluding land) are depreciated by the Authority on a straight-line-basis. All depreciable property and equipment were fully depreciated for the year ended December 31, 2014.

Developer Deposits Held – From time to time, the Authority receives developer deposits in accordance with development agreements by and between the Authority and third parties. The deposits held consist primarily of funds placed with the Authority by third party developers for the right to a future purchase of land. Upon purchase, these deposits would be deducted from the agreed-upon purchase price.

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

Budgetary Data – GAAP requires a budgetary comparison schedule to be presented for the general fund and each major special relevant fund that has a legally adopted budget.

The Authority does have an operating budget approved by the Board of Directors; however, the budget serves primarily as a guideline for operations and is not legally restricting. Accordingly, the Authority has not presented budgetary information.

NOTE C – DEPOSITS AND INVESTMENTS

GAAP requires disclosure for any investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name. The Authority does not maintain any investments subject to these classifications.

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

Concentration of Credit Risk – The Authority maintains all of its investments in the form of certificates of deposit. At December 31, 2014, the Authority maintained ten certificates of deposits with seven separate Massachusetts-based banks.

Interest Rate Risk – The Authority does not have a formal investment policy as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk relative to cash withholdings. The Authority carries deposits that are fully insured by the Federal Deposit Insurance Corporation, or FDIC, as well as the Depositors Insurance Fund, or DIF, as well as uninsured deposits. As of December 31, 2014, bank deposits totaled \$10,435,469 which included \$2,078,101 of money market funds and \$6,462,732 of certificates of deposit. Of the total bank deposit balance, \$1,289,705 was uninsured at year end.

Investment Maturities – The Authority maintains all of its investments in the form of certificates of deposit. As of December 31, 2014, each certificate of deposit is scheduled to mature at various times into 2016. The Authority maintained \$6,462,732 in certificates of deposit.

NOTE D – PENSION PLAN

Pension Plan Description – The Authority contributes to the City of Cambridge Contributory Retirement System (the Retirement System), a cost-sharing, multiple-employer defined benefit pension plan for the City of Cambridge, Massachusetts. The Retirement System was established under Chapter 32 of Massachusetts General Laws (MGL). The Retirement System is administered by the City and is part of the City’s reporting entity.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System. Stand-alone financial statements for the year ended December 31, 2014 were issued and are available at the Retirement Office, 100 Cambridge Park Drive, Suite 101, Cambridge, Massachusetts 02140.

Current membership in the Retirement System for all employers as of December 31, 2014 was as follows:

Active and inactive employees	3,145
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>2,908</u>
Total Membership	<u>6,053</u>

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

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

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

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years’ creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits

to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

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

Contributions Requirements – The Authority has elected provisions of Chapter 32, Section 22D (as amended) of Massachusetts General Laws, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Authority contributed \$17,738 to the Retirement System in fiscal year 2014, which equaled the actuarially-determined contribution requirement for the fiscal year. The Authority’s contributions as a percentage of covered payroll was approximately 16.23% in fiscal year 2014.

Net Pension Liability – At December 31, 2014, the Authority reported a liability of \$78,667 for its proportionate share of the net pension liability. The net pension liability was calculated as of January 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2014 (the measurement date). There were no material changes made in this update to the actuarial assumptions (see below) nor were there any material changes to the Retirement System’s benefit terms since the actuarial valuation.

The Authority’s proportion of the net pension liability is based on a projection of the Authority’s long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Authority’s proportion was approximately 0.05% at December 31, 2014, which was consistent with the proportion measured at January 1, 2014.

Pension Expense – The Authority recognized \$6,858 in pension expense in the statement of revenues, expenses, and changes in net position in fiscal year 2014.

Deferred Outflows of Resources and Deferred Inflows of Resources – At December 31, 2014, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 6,978	\$ -
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>-</u>	<u>24,510</u>
Total	<u>\$ 6,978</u>	<u>\$ 24,510</u>

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

<u>Year ended June 30,</u>	<u>Amount</u>
2016	\$ (4,383)
2017	(4,383)
2018	(4,383)
2019	<u>(4,383)</u>
Total	<u>\$ (17,532)</u>

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumptions used in the January 1, 2014 actuarial valuation included:

Actuarial cost method:	Entry Age Normal Cost Method
Amortization method:	Prior year's contributions increased 5.85% plus an additional contribution of \$300,000.
Remaining amortization period:	12 years from July 1, 2014
Asset valuation method:	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and expected return on a market value basis, and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Investment rate of return:	7.875% per annum
Projected salary increases:	4.75%
Cost of living adjustments:	3% on the first \$14,000 of retirement income
Mortality rates:	Pre-retirement rates reflect the RP-2000 Employees table projected 17 years with Scale AA (gender distinct). Previously, post-retirement rates reflected the RP-2000 Healthy Annuitant table projected 12 years with Scale AA (gender distinct).

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2014 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	38.50%	6.60%
International developed markets equity	12.00%	7.10%
Emerging markets equity	5.00%	9.40%
Core fixed income	15.00%	2.20%
High yield fixed income	5.00%	4.70%
Real estate	10.00%	4.40%
Hedge fund, GTAA, Risk parity	7.00%	3.90%
Private equity	7.50%	11.70%
Total	100.00%	

Discount Rate – The discount rate used to measure the total pension liability was 7.875%, which was a reduction from the previous discount rate of 8.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.875% as well as the Authority's proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.875%) or one percentage point higher (8.875%) than the current rate:

	1% Decrease (6.875%)	Current Discount (7.875%)	1% Increase (8.875%)
Authority's proportionate share of the net pension liability	\$ 147,617	\$ 78,667	\$ 20,076

NOTE E – OTHER POST EMPLOYMENT BENEFITS

Plan Description – In addition to the pension benefits previously described, the Authority provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (the "Plan") in accordance with Massachusetts General Law Chapter 32B. Specific benefit provisions and contribution rates are established by state law and City ordinance. All benefits are provided through the Authority's self-funded insurance program described below. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan. The number of participants in the Plan consists of two active employees and twelve retired employees; a total of fourteen.

Funding Policy – The contribution requirements of Plan members and Authority are established and may be amended by the Authority. Retirees contribute between 16% and 25% of the calculated contribution through pension benefit deductions. The remainder of the cost is funded by the Authority. Retirees contribute approximately \$2 each month towards life insurance premiums; \$5,000 face value. The Authority pays the remainder. The Authority currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Authority.

Annual OPEB Cost and Net OPEB Obligation – The Authority’s annual OPEB cost is calculated based on the annual required contribution (“ARC”) of the employer, and actuarially determined amount that is calculated in accordance with GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years.

The following table reflects the activity regarding the Authority’s OPEB obligation:

OPEB obligation at beginning of year	\$ 434,773
Annual required contribution	194,444
Contributions made	<u>(87,416)</u>
 OPEB obligation at end of year	 <u>\$ 541,801</u>

Trend information regarding annual pension cost, the percentage of the annual pension cost contributed and the net pension obligation is as follows:

Year Ended <u>December 31,</u>	Annual OPEB Cost <u>(AOPEBC)</u>	Percentage of AOPEBC <u>Contributed</u>	Net OPEB <u>Obligation</u>
2014	\$ 194,444	45 %	\$ 541,801
2013	101,123	52 %	434,773
2012	185,612	52 %	333,650

Funding Status and Funding Progress – The funded status of the Plan at December 31, 2014 for the most recent actuarial valuation performed as of January 1, 2012, was as follows:

Actuarial Value of Assets <u>(A)</u>	Actuarial Accrued Liability (AAL) Entry Age Normal Cost <u>(B)</u>	Unfunded AAL (UAAL) <u>(B – A)</u>	Funded Ratio <u>(A/B)</u>	Covered Payroll <u>(C)</u>	UAAL as a Percentage of Covered Payroll <u>((B-A)/C)</u>
\$ -	\$ 1,273,618	\$ 1,273,618	0.0%	\$ 196,207	649.1%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations.

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the 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. The significant methods and assumptions as of the latest valuation are as follows:

Valuation date	January 1, 2012
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay
Remaining amortization period	10 years as of January 1, 2012
Interest discount rate	4%
Annual compensation increases	3%
Healthcare/medical cost trend rate	10% grading down to 5% in year 2015

NOTE F – OPERATING LEASES

Facility Lease – The Authority leases office space in Cambridge, Massachusetts. The existing lease agreement requires monthly lease payments that increase 2% each year until 2018. The Authority pays their proportional share of the rent for common area space. The minimum annual lease commitments over the remaining lease term are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 90,858
2016	92,452
2017	94,046
2018	<u>95,640</u>
Total	<u>\$ 372,996</u>

NOTE G – COMMITMENTS AND CONTINGENCIES

The Authority is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at December 31, 2014, cannot be determined, management believes that any resulting liability, if any should not materially affect the financial statements at December 31, 2014.

NOTE H – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of \$66,997 was made to increase the Authority’s beginning net position. This adjustment was made to increase the parcels held for development balance for properties held in the in Cambridge Redevelopment Authority’s name that that City of Cambridge identified for them in 2014. These are all remainder lots from previously developed property.

A prior period adjustment of \$107,079 was made to decrease the Authority’s beginning net position.

The adjustment was made to reflect the prior period costs related to the implementation of the net pension liability.

Net position at January 1, 2014, as previously stated	\$ 10,954,261
Cost value of parcels identified as owned by CRA	<u>66,997</u>
Net position at January 1, 2014, as initially restated	11,021,258
Net pension liability adjustment	<u>(107,079)</u>
Net position at January 1, 2014, as finally restated	<u>\$ 10,914,179</u>

NOTE I – IMPLEMENTATION OF GASB PRONOUNCEMENTS

Current Year Implementation

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (calendar year 2014). The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2013 and impact the financial reports of the pension systems that communities participate in and not the financial statements of the communities themselves.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (calendar year 2015). The Authority early implemented in calendar year 2014 as the result of its status as a component unit of the City of Cambridge which does have to implement for its year ended June 30, 2015; and implementation did have a material effect on the Authority’s financial statements.

In November 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of GASB 71 is to address an issue regarding application of the transition provisions of GASB 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (calendar year 2014).

The Authority early implemented in calendar year 2014 as the result of its status as a component unit of the City of Cambridge which does have to implement for its year ended June 30, 2015; and implementation did have a material effect on the Authority's financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2013 (calendar year 2014). Implementation did not have a material impact on the financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2013 (calendar year 2014). The Authority believes the adoption will not have a material impact on the financial statements.

Future Year Implementation

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addresses accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (calendar year 2016). The Authority is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 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. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2106 (calendar year 2017). The Authority is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (calendar year 2017). The Authority is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (calendar year 2018). The Authority is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2015 (calendar year 2016). The Authority is currently evaluating whether adoption will have a material impact on the financial statements.

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

REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS
YEAR ENDED DECEMBER 31, 2014

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

	Year Ended December 31, 2014
Authority's proportion of the net pension liability (asset)	0.05%
Authority's proportionate share of the net pension liability (asset)	\$ 107,229
Authority's covered-employee payroll *	\$ 109,314
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	98.1%
Plan fiduciary net position as a percentage of the total pension liability	0.05%

SCHEDULE OF THE AUTHORITY CONTRIBUTIONS TO PENSION PLAN

	Year Ended December 31, 2014
Actuarially determined contribution	\$ 17,738
Contributions in relation to the actuarially determined contribution	<u>17,738</u>
Contribution deficiency (excess)	<u>\$ -</u>
Authority's covered-employee payroll *	\$ 109,314
Contributions as a percentage of covered-employee payroll	16.23%

* Covered employee payroll as reported in the actuarial valuation report.

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

See accompanying independent auditor's report.

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

REQUIRED SUPPLEMENTARY INFORMATION - OTHER POSTEMPLOYMENT BENEFITS
YEAR ENDED DECEMBER 31, 2014

SCHEDULES OF FUNDING PROGRESS

Other Postemployment Benefits

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)
1/1/2015	\$ -	\$ 934,045	\$ 934,045	0.0%	\$ 280,000	333.6%
1/1/2012	-	1,273,618	1,273,618	0.0%	196,207	649.1%
1/1/2009	-	1,523,529	1,523,529	0.0%	349,054	436.5%

SCHEDULES OF CONTRIBUTION FUNDING

Other Postemployment Benefits

Year Ended December 31,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2014	\$ 194,444	\$ 87,416	45.0%
2013	189,756	88,633	46.7%
2012	185,612	97,399	52.5%
2011	197,228	123,756	62.7%

See accompanying independent auditor's report.

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

SUPPLEMENTARY INFORMATION - EXPENSE ALLOCATIONS - PROJECT COSTS SCHEDULE
YEAR ENDED DECEMBER 31, 2014

Expense Categories	General Project Costs	Community Outreach	Allocated Project Costs										Totals
			Ames Street	Forward Fund	Parcel 6	Grand Junction	KSURP K2 Zoning	MXD Design	Foundry	Strategic Planning	Volpe		
Salaries	\$ -	\$ -	\$ 2,342	\$ 2,647	\$ 1,594	\$ 3,587	\$ 9,503	\$ 3,178	\$ 26,982	\$ 2,067	\$ 1,741	\$ 53,641	
Community Outreach	-	1,956	-	-	-	-	-	-	-	-	-	1,956	
Professional Services: Engineers & Survey	23,359	-	-	-	-	-	-	-	-	-	-	23,359	
Professional Services: Legal	47,551	-	-	-	-	-	-	-	-	-	-	47,551	
Professional Services: Real Estate & Finance	3,200	-	-	-	-	-	-	-	-	-	-	3,200	
Professional Services: Planning	14,230	-	-	-	-	-	-	-	-	-	-	14,230	
Professional Services: Other	-	-	600	-	10,000	102,181	39,275	806	80,730	348	-	233,940	
Totals	\$ 88,340	\$ 1,956	\$ 2,942	\$ 2,647	\$ 11,594	\$ 105,768	\$ 48,778	\$ 3,984	\$ 107,712	\$ 2,415	\$ 1,741	\$ 377,877	

See accompanying independent auditor's report.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Cambridge Redevelopment Authority
Cambridge, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements information of the Cambridge Redevelopment Authority (the "Authority"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 16, 2015

CAMBRIDGE REDEVELOPMENT AUTHORITY

MANAGEMENT LETTER

DECEMBER 31, 2014

CAMBRIDGE REDEVELOPMENT AUTHORITY

**MANAGEMENT LETTER
YEAR ENDED DECEMBER 31, 2014**

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Honorable Board of Directors
Cambridge Redevelopment Authority
Cambridge, Massachusetts

In planning and performing our audit of the financial statements of the Cambridge Redevelopment Authority, (the Authority) as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
December 16, 2015

I. OVERVIEW

Fiscal year 2014 represented the Authority getting “back to business” after a few years of completely rehiring all personnel, restructuring certain aspects of the Authority’s operations, and getting back into putting redevelopment projects in place and moving forward.

During the fiscal year ended December 31, 2014, the Authority’s net position decreased about \$859,000. This was primarily the result of revenues only being supported by only about \$120,000 with expenses totaling about \$976,000. Revenues were down nearly \$700,000 as the Authority did not recognize any revenue from the sale of developer rights in 2014, so operations had to be funded through previously accumulated financial resources. Expenses increased about \$145,000 over the previous year as a result of a full-year of employee payrolls and the increased project based expenses. Such a low revenue and high expense result from annual operations is anticipated to occur throughout the life of the Authority, which is why it remains imperative that strong fiscal management and planning of when those resources will be received and expensed remains a key element of the Authority’s operations.

One very significant change in the Authority’s financial reporting for 2014 involved the implementation of GASB 68 which effectively made the Authority recognize the value of the net pension liability that exists for all former Authority employees and the accumulated value of the pension liability associated with current employees. This resulted in the Authority recognizing a new liability of nearly \$79,000 on its financial statements as of December 31, 2014. We would also note that implementing this GASB requires obtaining portions of reports issued by the Cambridge Retirement System via their auditors; therefore, the Authority’s audited financial statements cannot be completed or issued until the Retirement System reports are finalized and available to the Authority. As this was the initial year of implementation, the Retirement System reports were delayed as they worked to implement the various nuances of the GASB required reporting, which in turn delayed the issuance of the Authority’s audited financial statements as well. Such delays are not anticipated in future years.

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

II. INFORMATIONAL ITEMS

Statement on Auditing Standards No. 115 – Audit Communications

The American Institute of Certified Public Accountants (“AICPA”) in 2009 issued Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (“SAS 115”). SAS 115 establishes new standards and provides guidance on communicating matters related to an entity’s internal control over financial reporting identified in an audit of financial statements. In particular, SAS 115 provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements in the following order of increasing severity:

1. Deficiency in internal control
2. Significant deficiency
3. Material weakness

Deficiencies identified as *significant deficiencies* or *material weaknesses* are required to be communicated to those charged with governance. *Deficiencies in internal control* are not required to be communicated; however, we have chosen to also report that type of deficiency in this report.

We did not deem any of the findings in this report to be categorized as (2) or (3) above.

Other Postemployment Benefits

Governmental Accounting Standards Board (“GASB”) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 45”) requires communities to recognize in their financial statements a liability that recognizes post-employment benefits as this benefit is earned by employees.

The Authority’s most recent valuation reflected a present actuarial-estimated liability of approximately \$542,000; however, the overall estimated liability into the future is actuarially estimated to approximate \$934,000. While this is a future liability, the Authority does not have a consistent and predictable stream of revenue annually, so consideration and funding of the liability while the Authority has the present financial resources to fund the liability may be a long-term strategy for the future when financial resources are not as predictable.

We would encourage the Authority to adopt MGL c. 32B s 20, which would allow the Authority to establish an OPEB Trust Fund. This enabling legislation has been specifically set up by the State Legislature and was recently amended to allow municipal entities to legally begin reserving funds for future OPEB costs.

This is a reminder to management that as part of its long-term planning, the Authority should begin to reflect the effects of OPEB into its plan. Other municipal entities, although while still in the minority, are becoming more active in this regard. The City of Cambridge is one such entity that is aggressively funding this liability.

Authority's Response: The Authority received its GASB 45 Analysis from Odyssey Advisors in March 2015 confirming that the Authority is at its anticipated peak annual payment level. The Authority is currently considering what projects from its Strategic Plan may be implemented over the next few years. Additionally, the outcome of the planning and zoning work for the Kendall Square Urban Renewal Plan, which would provide additional financial resource through real estate transactions in the future, is unknown at this time. Therefore, the Authority has decided to begin funding its OPEB obligation at a modest pace based on the GASB 45 recommendation.

Cash Disbursement: Purchase Orders

The Authority does not utilize a purchase order system. Implementing a purchase order system can enhance the controls surrounding the cash disbursements cycle, as it will add additional layers of control to initiating the payment of an invoice and the purchase of goods and services. The Authority should determine if the implementation of such a system would be both cost effective and appropriate in regards to the normal operations.

Authority's Response: The Authority has hired an outside accountant to help determine how best to conduct its bookkeeping such that Purchase Orders may be appropriately handled in the accrual ledger in its electronic bookkeeping system, especially for longer term service contracts. In the meantime, the Authority has set up a parallel contract tracking and budget system for contracts.

Due to the small staff size of the Authority, the Office Manager acts as the purchase manager for goods and supplies. The Executive Director is informed and signs off on any purchases or disbursements up to \$1,000. These smaller transactions will be reviewed monthly by the Treasurer (see below) to provide additional over site. Check disbursements over \$1,000 require the approval of the Executive Director and the signature of the Treasurer or Assistant Treasurer. The Authority will further evaluate the appropriate threshold for efficiently using a Purchase Order system.

III. GENERAL FINDINGS

Certified Procurement Officer (repeated from prior year)

The Inspector General holds a procurement course several times during the course of a year. These courses are intended to give public officials an in-depth overview of procurement in Massachusetts. We suggest the Executive Director attend these courses to gain a better understanding of the complex aspects of procurement in our State. Successful completion of such a course would also allow the Executive Director to earn the distinction of becoming a Certified Procurement Officer.

Authority's Response: The Authority has begun scheduling personnel to attend such courses; however, it should be noted that courses are only offered occasionally throughout the year by the Inspector General's Office, so completion will be timed with such offerings. The Office Manager has completed one portion of the series of courses, and the Executive Director intends to follow suit in the near future.

The CRA has utilized its legal counsel extensively to review its procurement processes for various new contracting activities from park construction to developer selection.

Secure Location

The Authority does not maintain a safe within their office to hold important documents or monies received or being held for later processing. While the Authority may not have many of such items, safes come in various sizes, and it is important that certain financial items be able to be securely maintained.

This came to our attention during the audit because it was represented that an employee usually takes money to the bank for deposit at night; however, if they cannot always make it that night so they take the money home and then deposit it the next morning. We would note that this is a process that is not acceptable under a good internal control structure, so we suggested a safe to keep the money in overnight and then make deposits during the day as the bank is only a five minute walk away. This is when the lack of a safe was brought up and the fact that the employee did not feel they had the time in the middle of the day to leave the office to go to the bank and return to the office – something that should be only a 15 – 20 minute activity. Therefore, we suggest the Authority review this overall process and allow the employee adequate time during regular working hours to make deposits as needed.

Authority's Response: In order to facilitate numerous transactions to shift investment funds and authorize major purchases, staff have brought paper work and checks to late evening Board meetings for the Treasurer and other Board members to review or authorize. Staff will seek alternative times to conduct such transactions or bring documents back to the office after Board meetings. Additionally, the Authority has purchased a safe for securing checks, deposits, and petty cash.

Employee Records

We noted that the Authority is maintaining employee payroll related files all in one single folder for each employee. In particular, we noted that the Form I-9 document that is required to be completed when an employee is hired was also included in these folders. The Department of Homeland Security instructs that I-9 forms are to be maintained in a separate folder away from other employment documentation. Accordingly, the Authority should create a separate folder in which to maintain these forms.

Authority's Response: *The Authority has separated employee I-9 forms in a separate file.*

Development Assets Held for Sale

During the year, the Executive Director was notified by the City of Cambridge's Assessor's Office that certain land parcels within the City listed the Authority as the property owner. Such parcels had not been reflected on the Authority's previous lists of property owned by the Authority. Some of these were remainder parcels that are the residual of past Authority projects. Working with the Executive Director and the historical records maintained within the office, we were able to estimate proportionate cost basis for the parcels to develop amounts upon which the assets and net position equity could be restated to include those parcels. The resulting restatement was for \$66,997 which has been reflected within the 2014 financial statements.

Authority's Response: *The Authority has begun a joint effort with the City Assessor's Office and Title Examiner to correct and clarify the property records related to all current and previous real estate assets of the Authority. This effort will identify remnant parcels from past redevelopment transactions and open space property that are not likely developable.*

Accounting Function (updated from previous year)

While certain changes and personnel hiring activities were started in 2013, it would be fair to state that 2014 was the first year in which these changes were being fully implemented and adapted for accounting and reporting of the Authority's financial activities. Additionally, the Authority ceased to need accounting or payroll assistance from the City of Cambridge during 2014. Such changes can be summed up as the hiring of a new Office Manager, implementation of a new Quickbooks accounting ledger system, outsourcing of payroll processing, and the hiring of financial consultants to assist with various aspects of accounting system implementation, methods, and training.

While a vast majority of the previous accounting items pointed out in previous management letters have now been resolved, the following represent accounting areas as of December 31, 2014, that we suggest the Authority work to correct or improve on in future periods:

- 1) Payroll withholding liability account balances are not properly stated to reflect the amounts collected and held on-behalf of employees that are due and payable in the

subsequent period. The amounts range from -\$1,769 to \$3,985; however, the net amount of the overall account balances that would need adjustment is only \$159.

- 2) An escrow deposit in May 2015 for \$3,000 was incorrectly recorded within Quickbooks as a May 2014 transaction that overstated cash and escrow deposit liability as of December 31, 2014. We would note that the transaction occurred after the Authority had closed the books for 2014 when the error didn't exist; furthermore, before they had a chance to reconcile the May 2015 cash activity to identify the error, the audit identified the posting date error's impact on the 2014 activity.
- 3) The Authority should request bank account balances for all bank accounts (including certificate of deposit accounts) that they do not receive bank statements for or that they do not have on-line access to directly determine balances as of December 31. By obtaining this information, the Authority will be able to record all earned, accrued interest income on their certificate of deposit accounts which could be significant.
- 4) We noted that the Office Manager receives and enters vendor invoices, generates check payments to vendors, and performs the bank account reconciliation on their own within Quickbooks. There is no formal review of the actual documents by another individual beyond review of only the vendor payment check before being signed. We believe that even with a small staff, it is important to develop a certain level of segregation of duty and offsetting checks and balances. One of the ways this can be accomplished is if a separate person review and signoff on the bank account reconciliations or more ideally if a separate person could be the one reconciling the bank accounts in Quickbooks. It is unclear whether the Authority will have the need to hire another staff person capable of such duties; so until that time, the Treasurer or the Assistant Treasurer should be the individual reviewing and signing off on the bank statement reconciliations each month.

Authority's Response:

The Authority has hired accounting consultant to provide assistance in adjusting accounting protocols so as to more accurately track and post accounting transactions in accordance with the items suggested above.

The Authority is implementing a procedure to have a Comptroller provide quarterly reviews of the bank statements and general ledger. Further, the Authority will have the Treasurer or Assistant Treasurer review the monthly ledger at the monthly Board meetings. The Office Manager has arranged for the balances of CDs held in its investment portfolio to be provided to the Authority on a quarterly basis.

IV. CLOSED OUT PRIOR YEARS' FINDINGS

The below topics were noted as findings in the prior year, but are now deemed to be closed out and no longer operational deficiencies as a result of actions taken by the Authority through the date of this letter.

Create policy and procedure manual and Consideration of Fraud and Theft

There were two comments that had been included within prior management letters that are being addressed singularly here because the consideration of fraud and theft has been addressed as part of the personnel policy manual.

The Authority has formally adopted the following policies which covered the primary policy and procedure areas that had been identified for development in previous management letters:

- 1) Personnel Policies
- 2) Procurement Policies and Procedures
- 3) Internal Control Policies and Procedures
- 4) Investment Policies

We applaud the effort put forth by management and leadership of the Authority in developing and adopting these policies and procedures. Furthermore, we would encourage the Authority to make an point to reviewing these written documents every 3-5 years and update them for any changes that are necessary as a result in the change in Authority operations or technological advancements that may have created other processing avenues.