

**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, 2013

Report on Internal Control  
Over Financial Reporting and  
On Compliance and Other Matters  
Year Ended December 31, 2013

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

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**DECEMBER 31, 2013**

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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, 2013, 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, 2013, 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, and the funding and contribution progress for pension benefits and other post-employment benefits information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## **Other Reporting Required By *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2014, 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  
Certified Public Accountants  
Woburn, Massachusetts  
November 10, 2014

## 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, 2013. 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 of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$10,954,261 (*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 \$11,152,481, or approximately 97.8% of total assets at December 31, 2013. Short and long-term development projects held for sale totaled \$235,129, or approximately 2.1%; remaining amounts are insignificant.
- The Authority's total net position decreased by \$36,362. Operating revenues of \$712,188 primarily consisted of the sale of development rights in 2013; these revenues were less than the Authority's operating expenses in 2013 by \$119,561. Additionally, nonoperating revenues of \$83,199 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.

## FINANCIAL ANALYSIS

### Exhibit I - Net Position

	December 31, 2013	December 31, 2012
<b><u>Assets</u></b>		
Current and other assets	\$ 11,399,332	\$ 11,409,724
Total assets	11,399,332	11,409,724
<b><u>Liabilities</u></b>		
Long-term liabilities	438,280	337,157
Other liabilities	6,791	81,944
Total liabilities	445,071	419,101
<b><u>Net Position</u></b>		
Unrestricted	10,954,261	10,990,623
Net Position	\$ 10,954,261	\$ 10,990,623

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 \$10,954,261 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,	
	2013	2012
<b><u>Revenues:</u></b>		
Program revenues:		
Charges for services	\$ 12,578	\$ 9,602
Operating and capital grants	-	-
Sale of developer rights	699,610	1,629,716
Investment income and other	83,199	77,707
Total revenues	795,387	1,717,025
<b><u>Expenses:</u></b>		
Administrative	461,705	518,437
Professional services	296,078	469,903
Project consulting	46,854	440,868
Property maintenance	27,112	37,336
Total expenses	831,749	1,466,544
Change in net position	(36,362)	250,481
Net position - beginning of year	10,990,623	10,740,142
Net position - end of year	\$ 10,954,261	\$ 10,990,623

The Authority's total net position at December 31, 2013, decreased \$36,362 from the prior year. Operating revenues of \$712,188 primarily consisted of the sale of development rights in 2013; this represented a \$927,130 reduction in operating revenues from the prior year. Such fluctuations 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. Nonoperating revenues totaled \$83,199 in 2013 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 2013 were \$831,749 and exceeded operating revenues by \$119,561. Current year expenses were significantly reduced by \$634,795 in comparison to previous year amounts. The significant decrease from the prior year was due mainly to a complete loss and restructuring of the administrative function personnel from 2012 - 2013, a reduction in legal costs as previous issues were concluded or decreased in activity, and project consulting was partially restrained for a period during 2013 as a result of the transition in key Authority personnel.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

The Authority's capital assets are not significant at December 31, 2013. The Authority held \$235,129 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, 2013, 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, 4<sup>th</sup> Floor, Cambridge, MA 02142.

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

**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2013**

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**Assets:**

Current assets:

Cash and cash equivalents	\$ 5,215,121
Investments	5,937,360
Accounts receivable	4,417
Other assets	7,305
Total current assets	<u>11,164,203</u>

Noncurrent assets:

Development projects held for sale	<u>235,129</u>
Total noncurrent assets	<u>235,129</u>

**Total Assets** 11,399,332

**Deferred outflows of resources** -

**Liabilities:**

Current liabilities:

Accounts payable	<u>6,791</u>
Total current liabilities	<u>6,791</u>

Noncurrent liabilities:

Compensated absences	3,507
Other postemployment benefits	434,773
Total noncurrent liabilities	<u>438,280</u>

**Total Liabilities** 445,071

**Deferred inflows of resources** -

**Net Position:**

Unrestricted net assets	<u>10,954,261</u>
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**Total Net Position** \$ 10,954,261

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, 2013**

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<b>Operating Revenues:</b>	
Rental income	\$ 11,844
Sale of developer rights	699,610
Other income	734
Total Operating Revenues	<u>712,188</u>
<b>Operating Expenses:</b>	
Administrative	461,705
Professional services	296,078
Project consulting	46,854
Property maintenance	27,112
Total Operating Expenses	<u>831,749</u>
<b>Operating Income</b>	<u>(119,561)</u>
<b>Nonoperating Revenues:</b>	
Investment income	<u>83,199</u>
Total Nonoperating Revenues	<u>83,199</u>
<b>Change in Net Position</b>	(36,362)
<b>Net Position - Beginning of year</b>	<u>10,990,623</u>
<b>Net Position - End of year</b>	<u>\$ 10,954,261</u>

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, 2013**

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**Cash Flows from Operating Activities:**

Rental income and other receipts	\$ 25,806
Proceeds from sale of development rights	2,329,326
Payments to vendors	(542,007)
Payments for wages and benefits	<u>(263,772)</u>

Net cash provided by operating activities 1,549,353

**Cash Flows from Investing Activities:**

Net transfers to investments	(5,062,019)
Investment income	<u>83,199</u>

Net cash provided by investing activities (4,978,820)

**Net Change in Cash and Cash Equivalents** (3,429,467)

**Cash and Cash Equivalents:**

Beginning of year	<u>8,644,588</u>
End of year	<u>\$ 5,215,121</u>

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

Operating income	\$ (119,561)
Changes in assets and liabilities:	
Accounts receivable	1,643,444
Other assets	(500)
Accounts payable and accrued expenses	(75,153)
Other post employment benefits	<u>101,123</u>
Net cash provided by operating activities	<u>\$ 1,549,353</u>

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, 2013**

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**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**

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, 2013, was \$235,129.

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, 2013.

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 has 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, 2013, the Authority maintained eight certificates of deposits with six 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, 2013, bank deposits totaled \$11,152,481 which included \$2,025,173 of money market funds and \$5,937,360 of certificates of deposit. Of the total bank deposit balance, \$2,074,517 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, 2013, each certificate of deposit is scheduled to mature at various times into 2015. The Authority maintained \$5,937,360 in certificates of deposit.

#### **NOTE D – PENSION PLAN**

System Description – The Authority contributes to the City of Cambridge Contributory Retirement System (the “System”), a cost-sharing, multiple-employer defined benefit pension plan for the City, the Cambridge Housing Authority and the Authority. The System was established under Chapter 32 of the General Laws of the Commonwealth of Massachusetts. The System is administered by the City and is part of the City’s reporting entity. A stand-alone financial report for the year ended December 31, 2013, was issued and is available at the Retirement Office, 100 Cambridge Park Drive, Cambridge, Massachusetts.

Substantially all employees of the City, except teachers and certain administrative personnel employed by the School Department, participate in the System. The members of the System do not participate in the Social Security System. Benefits paid under the System, referred to as “retirement allowances,” include both an annuity portion, funded principally from amounts contributed by the participants, and a pension portion, funded by the City. The Authority’s payroll for employees covered by the System for the year ended June 30, 2013, was approximately \$124,000.

Benefits – Massachusetts Contributory Retirement System benefits are uniform from system to system. Generally, the System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year average annual rate of regular compensation. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts: an annuity and a pension. Participants' accumulated total deductions and portions of the interest they generate constitute the annuity. The differential between the total retirement benefit and annuity is the pension.

From time to time, the Legislature may grant cost-of-living increases to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. Since 1982, cost-of-living increases granted to members of local retirement systems have been the financial responsibility of the State. However, beginning in 1998, the funding of future cost-of-living amounts became the responsibility of the participating units. These units are responsible for the full cost-of-living amounts for all new retirees beginning that year, and for any additional cost-of-living increases granted to individuals who retired before 1998. The State shall continue to fund the cost-of-living amounts granted to retirees prior to 1998 for the duration of their selected retirement option.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive 0%, 50% or 100% of the regular interest that has accrued upon those contributions. A vested employee under the age of 55 who elects to leave his accumulation on deposit may apply for benefits upon reaching that age. Survivor benefits are extended to eligible beneficiaries of participants whose death occurs to or following retirement.

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

Normal Retirement – Normal retirement 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.

Disability Retirement – The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, 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.

Funding Status and Progress – The City has elected provisions of Chapter 32, Section 22D of Massachusetts General Laws, which require that a funding schedule be established to fully fund the accrued liability 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. Amortization of the unfunded actuarial liability is determined using the level dollar amortization method over a 19-year period. Currently, the City's funding schedule is calculated to fully fund the accrued liability by June 30, 2029.

*Contribution Requirements and Contributions Made* – The System’s funding policies have been established by Chapter 32 of the Massachusetts General Laws. The annuity portion of the retirement allowance is funded by employees who contribute a percentage of their regular compensation. Employees whose creditable service began prior to January 1, 1975, contribute 5% of their base salary or wage; those whose service date is subsequent to January 1, 1975 and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. Additionally, employees hired after January 1979 contribute an additional 2% on earnings in excess of \$30,000.

The total Authority contributions to the System for the years ended December 31, 2013, 2012 and 2011, were \$23,461; \$22,091 and \$50,582, respectively. This equaled its required contribution for each fiscal year. At December 31, 2013, the Authority did not have a net pension obligation.

**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	\$ 333,650
Annual required contribution	189,756
Contributions made	<u>(88,633)</u>
OPEB obligation at end of year	<u>\$ 434,773</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 December 31,	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
2013	\$ 101,123	52 %	\$ 434,773
2012	185,612	52 %	333,650
2011	197,994	62 %	245,437

Funding Status and Funding Progress – The funded status of the Plan at December 31, 2013 for the most recent actuarial valuation performed as of January 1, 2012, was as follows:

Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B – A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ -	\$ 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 – COMMITMENTS AND CONTINGENCIES

Facility Lease – The Authority leases office space in Cambridge, Massachusetts. The existing lease agreement requires monthly lease payments totaling approximately \$4,516 through October 31, 2014. 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>
2014	\$ 45,163
Total	\$ 45,163

*General Litigation* – The Authority is, from time to time, party to certain legal claims in the ordinary course of business. The Authority is not a party to any material litigation at this time.

*Former Executive Director Compensation* – In 2013, the Authority engaged special counsel to evaluate whether the Authority had overpaid its former executive director in connection with this individual’s accumulation and payout of compensated absences at the time of his retirement. As a result of this evaluation, the Authority believes that its former executive director was unjustly compensated for his accumulated compensated absences and has, through this special counsel, made demands for these overpayments. No assurances can be made regarding the outcome of this matter or the amount of settlement, if any.

## **NOTE G – IMPLEMENTATION OF GASB PRONOUNCEMENTS**

### Current Year Implementation

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of GASB 65 became effective for the District in calendar year 2013 and did not have a material effect on its financial statements.

In March 2012, the GASB issued GASB Statement No. 66, *an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 became effective for the Authority in calendar year 2013 and did not have a material effect on its financial statements.

### Future 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 Authority is currently evaluating whether adoption will have a material impact on the financial statements.

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 believes the adoption of this statement will have a material impact on the 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). The Authority is currently evaluating whether adoption will 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 is currently evaluating whether adoption will have a material impact on the 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 believes the adoption of this statement will have a material impact on the financial statements.

\* \* \* \* \*

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

**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2013**

**SCHEDULES OF FUNDING PROGRESS**  
**(Dollars are in thousands)**

**Total Retirement System (All Participants)**

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)
1/1/2012	\$ 832,297	\$ 1,070,070	\$ 237,773	77.8%	\$ 217,086	109.5%
1/1/2010	796,016	949,908	153,892	83.8%	232,842	66.1%
1/1/2008	766,031	833,034	67,003	92.0%	231,770	28.9%

**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)
1/1/2012	\$ -	\$ 1,274	\$ 1,274	0.0%	\$ 196	650.0%
1/1/2009	-	1,524	1,524	0.0%	349	436.7%

**SCHEDULES OF CONTRIBUTION FUNDING**

**Pension System**

Fiscal Year Ended December 31,	City of Cambridge Contributory Retirement System (All)			Authority	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	(B / A) Percentage of System Wide Actual Contributions
2013	\$ 33,515	\$ 33,515	100.0%	\$ 23	0.1%
2012	31,963	31,963	100.0%	22	0.1%
2011	32,213	32,213	100.0%	51	0.2%

**Other Postemployment Benefits**

Year Ended December 31,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2013	\$ 190	\$ 89	46.8%
2012	186	97	52.2%
2011	198	123	62.1%

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 of the governmental activities, each major fund, and the aggregate remaining fund information of the Cambridge Redevelopment Authority (the "Authority"), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated November 10, 2014.

**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  
Certified Public Accountants  
Woburn, Massachusetts  
November 10, 2014

**CAMBRIDGE REDEVELOPMENT AUTHORITY**

MANAGEMENT LETTER

DECEMBER 31, 2013

**CAMBRIDGE REDEVELOPMENT AUTHORITY**

**MANAGEMENT LETTER  
YEAR ENDED DECEMBER 31, 2013**

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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, 2013, 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  
November 10, 2014



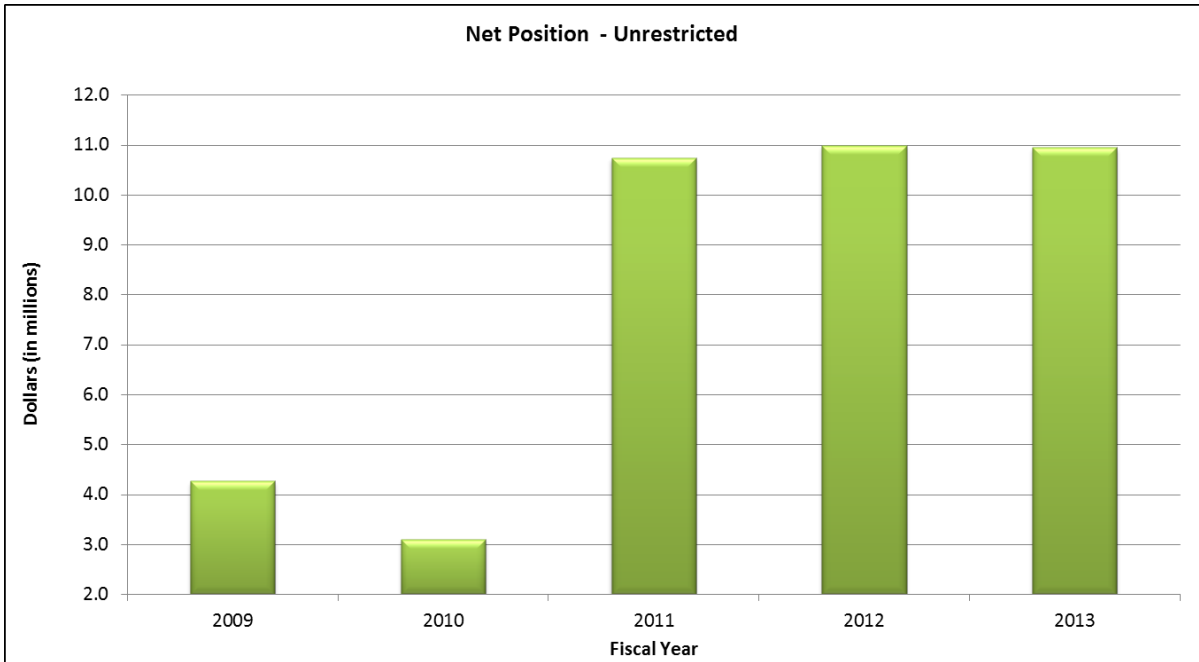
## **I. OVERVIEW**

Fiscal year 2013 represented a major turning point for the Authority. Near the beginning of the year, the still fairly newly re-constituted Board of Directors had to start nearly from scratch within its operations as it had witnessed a complete turnover of all office personnel in the second half of 2012.

Additionally, in 2012, the Authority had hired new auditors to perform audits of fiscal years 2010 – 2012; these results of those audits came to the awareness of the Board during 2012 and into early 2013, which initially served to point out further areas of operational inconsistencies and short-falls which needed to be addressed by the Board and the newly hired Executive Director. A previous report to management on fiscal year 2010 and 2011 included material weaknesses in governance and in procurement, and while not as numerous or impacting, similar issues continued to plague the Authority throughout 2012 and remained identified as material weaknesses. We are pleased to report that while some “housekeeping” actions remain to be completed the significant and notable efforts put forth by the Board, the new Executive Director, and the third-parties temporarily involved in the accounting functions have resulted in the 2013 report reflecting no significant deficiencies or material weaknesses. This is an achievement worth recognition given the challenges of the past two years.

During the fiscal year ended December 31, 2013, the Authority’s net position decreased only about \$36,000 which indicates that current year inflows and outflows were nearly identical. This was primarily the result of revenues being supported by development right sales of nearly \$700,000; and the equation being further supported by a significant reduction in expenses totaling just over \$830,000 (approximately half of prior year expenses). Expenses were notably lower as a result of less personnel costs due to open positions, a re-evaluation of spending activities, and reduced usage of legal services. For 2014, expenses are likely to increase with the filling of employee positions and the Authority regaining its stride with regards to promoting and supporting development within the City of Cambridge.

The Authority is very much a cash management depend entity (primarily because the most significant sources of revenues are presently derived from the development of new and expanding structures within the Kendall Square area by other entities); therefore, obtaining and then achieving the maximum benefit from investment of that cash in supporting and encouraging continuing and recurring development is imperative to the long-term financial sustainability of the Authority. While some may say that the Authority is “lucky” to have its center of activities anchored within the Kendall Square area (which is arguably one of the most vivacious economic areas in Massachusetts, and even New England, as a whole at this time when other areas still struggle to maintain economic levels lesser than a decade ago), the present stimulating economy for Kendall Square can in some part be attributed to the Authority’s efforts over the last few decades, which established a foundation that continues to support the Authority and the greater Cambridge area. Accordingly, this demonstrates that the Authority’s actions and decisions on development today may have both short and long-term impacts for the next generation and neighboring areas.



As demonstrated on the chart above, during this period of re-evaluation of operations and goals, the Authority has been able to accumulate and stabilize a significant level of equity (net position), most of which is comprised of cash and investments. Having access to such available resources should help the Authority remain financially dynamic and able to quickly take advantage of opportunities.

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 future actuarial-estimated liability of approximately \$435,000. While this is a future liability, its impact to current operations cannot be ignored. As time goes on, this liability will continue to increase and in the not too distant future, may establish a liability balance that is difficult to identify financial resources that can be allocated for “catch-up” funding. If the Authority begins to actively fund this liability in the present, the annual budget allocation will be more reasonable and will also effectively lower the future liability as investment earnings will aid in reducing the future amounts required to be funded by Authority operation revenues.

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 will consider its options regarding the establishment of an account under MGL Chapter 32B s 20, as an element of its Investment Plan. Through conversations with a representative of Odyssey Advisors, who had prepared the GASB 45 Analysis for the Authority in 2012, it was indicated that the Authority is likely at its peak annual payment level over the next few years. Given that the Authority was still undergoing its Strategic Planning in 2013, the decision was that maintaining the flexibility of cash until the future programmatic goals and broader investment strategies were in place. Thus, the Authority will re-evaluate the issue this year.

***Create policy and procedure manual (updated from prior year)***

Internal controls consist of several interrelated components that, when operating effectively, will provide the Authority, and the City of Cambridge reasonable assurance that the strategic and operational objectives of the Authority are met. In order to achieve this goal, policies and procedures should be established that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions of the Authority;
2. Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of accurate financial reports and to assure that receipts and disbursements of the Authority are being made only in accordance with authorizations of Management and the Board of Directors; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized use of Authority funds.

We recommend that a formal financial policy and procedure manual is created by staff and formerly adopted by the Board of Directors. Such a manual should provide control procedures surrounding:

- a. Purchasing
- b. Payroll
- c. Cash receipts
- d. Personnel policies
- e. Investment policies
- f. Fraud (see below)
- g. Fixed assets

*Authority's Response:* The Authority's Board and staff have been deliberate in creating and adopting the operating policies for the organization after thorough review. Items a – f above are fully expected to be formally adopted during 2014.

***Consideration of Fraud and Theft (repeated from prior year)***

In these trying economic times, it is reasonable to expect that the frequency of fraud, theft and deception may increase. The Authority should be well aware of this increased risk and take additional measures to better safeguard the Authority's cash and other assets. Fraud can include theft, the misappropriation of assets such as cash or easily marketable equipment like computers, the execution of transactions with related parties that are not disclosed and not completed "at arm's length," or the modification or fabrication of financial records to protect job security. The Authority must increase its focus and awareness of fraud risks throughout all its areas. Suspicious or unusual activity should be promptly investigated.

We understand the Authority is working to implement written fraud risk policies as part of its personnel policies. The goal of such policies is to combine them into an overall financial policy and procedure manual. Such policies would direct the Authority to perform a risk assessment that would allow the Authority to identify, analyze and manage the risk of fraud. Such policies should also communicate whistleblower provisions and the rights that whistleblowers have under the General Laws.

The Authority should be aware that our audit procedures are designed to provide reasonable assurance that the financial statements are fairly presented and free of material misstatement. Our audit includes considerations for fraud; however, our audit cannot be relied upon to detect all instances of fraud or illegal acts that may exist.

*Authority's Response: On January 15, 2014, the Board adopted an Amended and Restated Personnel Policy. The Policy now includes a new section entitled "Duty to Report Accounting or Auditing Irregularities" which includes a discussion of reporting responsibilities and procedures, prohibition on retaliation, and confidentiality. This Policy is provided to all employees and Board members and is posted on the Authority's website.*

### 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.*

#### *Accounting Function*

As a result of the complete turnover in management and administrative staff, which saw the Chief Fiscal Officer resign in September 2012, the Authority began a process to reorganize its internal structure and to evaluate its personnel needs and duties based on the entity the Authority presently is and where the Board wants to take it into the future. During this evaluation period the Authority was able to work out an agreement with the City of Cambridge Community Development Department (CDD) to provide the necessary daily accounting maintenance on a temporary basis. This served as a stop-gap measure only as the CDD responsibilities are nothing more than to facilitate the writing of checks for invoices, the processing of payroll and the reporting of budget/expense activity to the Authority. The relationship did not, and was never intended to satisfy all of the accounting needs of the Authority.

Additionally, the Authority hired an accounting consultant to assist in the revision of internal control accounting procedures, develop an accounting framework through assisting the in the development of various policies and procedures documents, closed the books for fiscal 2013, establish a new chart of accounts and budget format, training of personnel, and created a company file within QuickBooks that was implemented starting in January 2014 on a parallel processing basis with the old QuickBooks file maintained by the CDD through at least the date of our fieldwork into 2014.

Furthermore, in 2014, the Authority has hired an office manager who is transitioning into the new position with the assistance of both the CDD and the accounting consultant. It is the Authority's expectation that this person will completely take over and maintain all accounting functions within their office beginning in the second half of fiscal 2014.

At the end of the prior year audit for 2012, we noted there were many deficiencies in the closing process that had continued into fiscal 2013. Some of these deficiencies remain and any new ones are highlighted below to include status updates for the period into fiscal 2014:

1. The authority maintains a security deposit on its books for \$6,806. There was an entry of \$500 posted to this account that we determined was an error and truly related to a payment from the relationship in (3) below. After adjusting this error, it was determined that the deposit equals \$7,306 and most likely relates to a security rental deposit with Boston Properties. The Authority should not lose track of this deposit as it enters into negotiations to either end or extend the current lease. This balance should be verified with Boston Properties and adjusted as necessary in fiscal 2014.
2. During fiscal 2013, the Board had voted to write-off a receivable in the form of a \$2,500 advance that had been made to the KSA in a previous year; this amount remained on the balance sheet and required an adjustment to correct.
3. There were receivables totaling \$2,743 which existed at the end of fiscal 2013 that were not reflected on the balance sheet. This required an adjustment to correct.
4. A prepaid expense was recorded at the end of fiscal 2013 for a portion of the Authority's annual retirement assessment from the Cambridge Contributory Retirement System. This assessment has been deemed to be fully due and earned at the time of billing; therefore, as it is not equitably earned throughout the billing year, there is no portion of the assessment that meets the definition of a prepaid expense. This required an adjustment to correct.
5. The liability posted for other post-employment benefits had not been updated since 2011. A report was received from the actuary that does the calculation but nothing was done with this report. This required an adjustment to correct.
6. Interest income earned during 2013 but not received until fiscal 2014 was not reported as interest income after the end of the fiscal year. This required an adjustment to correct.
7. The compensated vacation accrual liability was reported as both an asset and a liability. This is not proper accounting treatment. This required an adjustment to correct.
8. The payroll withholding accounts were not reconciled at year-end. This required an adjustment to correct.
9. There were amounts held as deposits, totaling \$5,521. Since these transactions were completed, an accounting adjustment was required to eliminate this balance and include it as equity.
10. There are accounts reflected on the balance sheet identified as P&E Land which have incorrectly reflected amounts that are incorrect. These variances were identified in a prior year audit and adjusted within that year's financial statements; however, the amounts have yet to be eliminated from the general ledger maintained by the Authority.

In addition, as discussed in the previous year report, the Authority should remain vigilant in its efforts to maintain an effective segregation of duties. We understand that this difficult in such a limitedly staffed organization, we only call attention to it now, as the accounting records are about to be brought back into the office where nearly all accounting functions

will be performed. This is in contrast to the nearly past two years where there has been an actual physical separation in location and management control under the CDD's term of accounting assistance which did provide an inherent segregation that will cease to exist.

*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.*

***Cash Disbursement: Purchase Orders - repeated from prior year***

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 is in the process of adopting revisions to its payment practice that will include the adoption of a Purchase Order system.*



#### **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.

##### ***Governance Deficiencies (Material weakness; Noncompliance with laws and regulations)***

This finding was included in the 2012 management because it was not corrected until May 2012; we are only incorporating the language by reference from the 2010 and 2011 Management Report. We urge you to review the detail in this prior year report in conjunction with this discussion. The weakness relates to the period through May 2012.

- In May 2012, the City of Cambridge appointed 4 members to the Board of Directors and the Commonwealth appointed the remaining member. Elections for Officer's were held, resulting in the election of a Chairman, Treasurer, Secretary, Clerk and Assistant Treasurer. This, in effect, corrected the governance deficiency that existed. The Authority continues to operate with the proper governance structure and this previous material weakness is deemed eliminated.

##### ***Procurement – MGL Chapter 30B (30B) (Material weakness: Noncompliance with laws and regulations)***

In the prior year, we identified numerous possible 30B violations. All issues identified during the 2010/2011 audit also existed through October 2012 in different amounts, until the transition team was mobilized.

Violations relating to procurement activities included:

1. Engaging vendors over \$5,000 without a contract
2. Engaging vendors over \$5,000 but less than \$25,000 without obtaining 3 quotes
3. Engaging vendors over \$25,000 without a formal bid or RFP process
4. Allowing contracts to extend beyond 3 years
5. Not receiving Board approval on contracts

Violations relating to disbursements included:

1. Credit cards
2. Mobile phones
3. Office phone and internet use
4. Gifts to charities
5. Dues and subscriptions
6. Flower and plant maintenance
7. Engineering services

- Since October 2012, many of these were terminated and the service was either ended or replaced through proper procurement. In 2013, the Authority do begin performing Chapter 30B required procedures in its purchasing of contractual services and goods. The Executive Director has drafted a written procurement policy and intends to present it to the Board for their adoption in 2014. Additionally, the Executive Director is planning to attend the Inspector General's Certified Procurement Officer course in the near future; this course is something we strongly encourage as noted previously in this letter. It is our conclusion that the Authority has educated its management and personnel sufficiently to remove the material weakness designation from this operating cycle.

#### ***Authorized Bank Account Signatories (Significant deficiency)***

We discovered that not all bank statements in paper form are currently available. This is due to the previous Chief Fiscal Officer converting the bank process to electronic and online banking. Since the previous Chief Fiscal Officer resigned, the Authority has had difficulty obtaining passwords and having access to the bank records due to the authorized signer process not being updated. This has resulted in the inability to adequately reconcile bank records and limited access to the millions of dollars in the bank account whose authorized signers are not currently associated with the Authority. This is not a tolerable situation as it places the Authority assets at significant risk. This situation should be corrected immediately. We feel that if the Authority had a dedicated senior level accounting officer, this situation would not have existed for the amount of time it has.

- The Authority has gone through all of its bank accounts and is actively in the process of re-establishing the authorized signers. Additionally, audit review indicates that the statements are being delivered to the Authority and either the statements or the online reporting of the account were available to document the cash and investment balances. Some statements, such as those for certificates of deposit, are only issued as time of maturity or renewal, and therefore may not provide a balance as of the end of the Authority's fiscal year; however, that is expected. The previous designation as a significant deficiency has been eliminated in 2013.

#### ***Update of Bylaws***

The bylaws were last updated thirty years ago in 1982. Many of these bylaws are antiquated and do not conform to the current technological climate that we operate under.

- New bylaws were adopted in 2013 by the Board.

### ***Authority Property Not Returned***

As discussed in the previous year letter, the Authority's practice had been to purchase mobile phones for its employees. It also purchased a mobile phone for its former Treasurer. During 2012 the Treasurer resigned from his post. There is no record of this phone being returned to the Authority upon resignation. The Authority should exercise due diligence in determining the status of all phones held by former employees.

- A new cellular phone policy was enacted in 2013 limited such phones to employees only. Contact was made with those individuals holding Authority cellular phones. The Board has completed its investigation into this issue; no further action to be taken or deemed necessary.

### ***Annual Budget***

Unlike Cities and Towns, who are required to legally adopt an annual budget, redevelopment authorities are not specifically required to adopt a budget. As such, no budget was formally adopted for fiscal year 2012. In our opinion, it is not good business practice to ignore a budget process regardless if a mandate exists. A budget allows you to understand your cash needs, monitor your expenses, allow you to invest cash more efficiently and make timely management decisions.

- The Authority has adopted a policy that requires the preparation of an annual budget which was developed for 2013 and will be done so annually in future periods.

### ***Kendall Square Neighborhood Association***

The Kendall Square Neighborhood Association (KSA) is a nonprofit organization incorporated in October 2008 under IRC section 501 (c) 6. The mission of the group is to improve, protect and promote Kendall Square. Membership consists of the various companies that call Kendall Square their home.

The Authority has been very involved in the start-up, and initiation of KSA. This includes pro-bono services, advances of cash for start costs and supporting some of the minor ongoing costs as needed. The following were noted as part of the Authority's relationship with KSA:

1. Currently there is an amount owed to the Authority of \$2,500 that was advanced as part of the start-up costs in 2008 or 2009. This advance is still on the Authority's books as a receivable and the Authority should determine if it should write-off this amount as forgiven or attempt to collect it. This decision should be made by the Board.
2. The Authority as of 2012 was providing pro-bono services including preparation of the tax filings and other administrative tasks. This is not part of the Authority's mission and thus should consider discontinuing this practice.

3. The Authority incurred costs on behalf of the KSA as noted earlier when it was highlighted that the Authority was being charged \$50 per month for the Association's membership software. In addition, in 2012, the Authority purchased lapel pins on behalf of the KSA. The lapel pins cost \$6,349. The Authority should evaluate whether it would be cost effective to research all costs incurred and bill back KSA or whether to forgive these amounts.
- The Authority's business relationship with the KSA, other than as an active member was discontinued in 2013. Additionally, relative to the monetary amounts due to or invested by the Authority, a plan was agreed to whereby a portion of the amount was written off by the Authority and the KSA participated in some temporary cost-sharing activities that afforded the Authority with reduction in net costs to the extent deemed sufficient by both parties to mitigate any previously invested amounts by the Authority.

### ***Vacation and Sick Policies***

Vacation and sick pay is allowed to accrue on the books from year to year. This policy could cause financial challenges in years that individuals with large accruals retire, especially if not planned for accordingly. In addition, if the hours are not maintained properly from year to year and tracked in a concise chronological fashion, it could lend the process to human error and inaccuracies that could lead to overpayments on the part of the Authority.

- The Board has adopted a personnel policy in 2014 that addresses in detail, this and many other areas of personnel rights and benefits afforded by the Authority.

### ***Compensated Absences of Resigned Employees***

Currently there is an amount reflected on the Authority's trial balance for \$3,507. This reflects amounts accrued to the Chief Fiscal Officer and Office Staff who both resigned in September 2012. No attempts were made to collect these balances by either of these employees upon their resignation. The Authority should, through Counsel, determine what the appropriate resolution for the accrued balances should be. If the amounts are truly owed, a payment should be submitted to these employees, if not they should be written off with an offsetting increase to equity.

- The Board initiated further investigation of the balance and follow-up contact with past employees. The Board has completed its investigation into this issue; no further action to be taken or deemed necessary.

### ***Postage Meter Security***

The Authority uses a postage meter to handle its postage needs. There are no security measures on who can use the postage meter and if in fact the postage meter is used for Authority purposes only. The Authority should consult with the postage meter company to determine if there are inexpensive ways to secure the postage from abuse.

- The Authority implemented automated security protocols available within the equipment itself to mitigate its risk of misuse in the future.