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August 26, 2013

Honorable Board of Directors  
Cambridge Redevelopment Authority  
Cambridge, Massachusetts

Enclosed herewith please find all applicable reports required under generally accepted accounting guidelines for the years ended December 31, 2010, 2011 and 2012 issued for the Cambridge Redevelopment Authority (the Authority).

In issuing these reports, please be advised that to satisfy these guidelines, there are three reports issued for each year. We have chosen to combine two of the reports for 2010 and 2011 so the total number of reports is seven.

The following is a brief description of the purpose of each report.

1. The Report on Examination of Basic Financial Statements and Additional Information was issued separately for each of the years under audit. This report is a snapshot of the financial status of the Authority as of the year under audit. It reflects the asset and liability balances as well as summarizes the activity (revenues and expenses). In addition, in the Management Discussion and Analysis it gives a brief discussion of the financial activity for the year and how it compares to the preceding year. There are also footnotes that describe in more detail the financial activity. Because the Authority is organized under Chapter 121B of the Massachusetts General Laws, this report is an annual requirement. (The reporting standards changed the wording of the reports effective with the 2012 report.)
2. In conducting the examination described in (1) above, if it comes to our attention during the performance of our procedures that there are material weaknesses or significant deficiencies in internal control, the audit firm is required to report these items in a Report On Internal Control (title abbreviated). Statement on Auditing Standards #115 issued by the American Institute of Certified Public Accountants (AICPA) governs this. In addition, if the entity is a municipal corporation and is the recipient of any level of federal funds, this report is also required by the General Accounting Office of the United States. The purpose of this report is only to report material weaknesses and significant deficiencies. This report was issued as a combined report for 2010 and 2011; and a separate report for 2012. (The reporting standards changed the title and wording of the reports effective with the 2012 report.)
3. The final report is a Management Letter. The Management Letter is an optional report as items in the Management Letter may be communicated orally. In order to maintain full

transparency, the Authority has chosen to direct our firm to report those items in written form. The Management Letter in this situation repeats the material weaknesses and significant deficiencies included in the Internal Control Report, and also report all other findings discovered as a result of our procedures that do not fall under either of these categories. This report was issued as a combined report for 2010 and 2011; and a separate report for 2012.

We sincerely hope our services have been helpful to the Authority as you strive to obtain your financial and operating goals and would be pleased to be of assistance in the future should the need arise.

Sincerely

A handwritten signature in black ink, appearing to read "Chad Clark". The signature is fluid and cursive, with a long horizontal stroke at the end.

Chad Clark, CPA, Partner

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

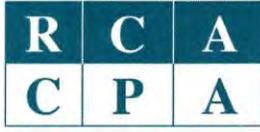
Report on Examination of  
Basic Financial Statements  
And Additional Information  
Year Ended December 31, 2010

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

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**DECEMBER 31, 2010**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Cambridge Redevelopment Authority  
Cambridge, Massachusetts

We were engaged to audit 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, 2010, and the related statements of revenues, expenses and changes in net assets, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as explained in the following paragraph, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall basic financial statement presentation.

The management of the Authority did not furnish us with written representations. Such representations are required in order for the audit to be in accordance with auditing standards generally accepted in the United States of America. Because the management of the Authority did not furnish us with written representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Authority's basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, 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.

*Roselli Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
August 26, 2013

## 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, 2010. 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 \$3,096,928 (*total net assets*). 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 \$3,385,803, or approximately 82% of total assets at December 31, 2010. Short and long term development projects held for sale totaled \$749,934, or approximately 18% of total assets at December 31, 2010.
- The Authority's total net assets decreased by \$1,169,502. Due to the nature of the Authority's operations, revenues from development project sales have long term cycles while operating expenses generally approximate \$1 million or more each year. In 2010, the Authority recorded operating revenues of only \$6,000, which was rental income; nonoperating revenues included \$50,672 in interest income earned on the Authority's investments. The Authority invests its excess cash resources in certificates of deposit.

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

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets 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 Assets**

	December 31, 2010	December 31, 2009
<b><u>Assets</u></b>		
Current and other assets	\$ 4,146,781	\$ 5,178,538
Total assets	4,146,781	5,178,538
<b><u>Liabilities</u></b>		
Long-term liabilities	988,995	832,170
Other liabilities	60,858	79,868
Total liabilities	1,049,853	912,038
<b><u>Net Assets</u></b>		
Unrestricted	3,096,928	4,266,500
Net Assets	\$ 3,096,928	\$ 4,266,500

**Exhibit II - Changes in Net Assets**

	Year Ended December 31, 2010	2009
<b><u>Operating Revenues:</u></b>		
Program revenues:		
Charges for services	\$ 6,000	\$ 6,000
Operating and capital grants	-	147,140
Land proceeds	-	5,277,926
Investment income and other	50,672	53,357
Total revenues	56,672	5,484,423
<b><u>Operating Expenses:</u></b>		
Administrative	778,780	888,362
Professional services	141,502	100,287
Project consulting	269,461	58,927
Property maintenance	36,431	91,583
Depreciation	-	514
Total expenses	1,226,174	1,139,673
Change in net assets	(1,169,502)	4,344,750
Net assets (deficit) - beginning of year	4,266,430	(78,320)
Net assets - end of year	\$ 3,096,928	\$ 4,266,430

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$3,096,928 at the close of the most recent fiscal year.

The Authority's net assets are categorized as unrestricted. Accordingly, the entire net asset amount is available for spending on future development projects and administrative costs as determined and directed by the Authority's Board of Directors.

The Authority's total net assets at December 31, 2010 decreased \$1,169,502 from the prior year. Due to the nature of the Authority's operations, revenues from development project sales have long term cycles while operating expenses generally approximate \$1 million or more each year. In 2010, the Authority recorded operating revenues of only \$6,000, which was rental income; nonoperating revenues included \$50,672 in interest income earned on the Authority's investments.

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

The Authority's capital assets are not significant at December 31, 2010. The Authority held \$749,944 in development projects held for sale at December 31, 2010. Of this total, \$514,805 was categorized as short-term due to the nature of these assets.

As of December 31, 2010, 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 Cambridge Urban Renewal District as provided within its authority and mandate. The Authority will make this possible through funds from the sale of development rights as well as federal earmark grants.

### **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, One Cambridge Center, 4<sup>th</sup> Floor, Cambridge, MA 02142.

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

**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2010**

**Assets:**

Current assets:

Cash and cash equivalents	\$	1,362,099
Investments		2,023,704
Accounts receivable		3,738
Development projects held for sale		514,805
Other assets		7,306
Total current assets		3,911,652

Noncurrent assets:

Development projects held for sale		235,129
Total noncurrent assets		235,129

<b>Total Assets</b>		4,146,781
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**Liabilities:**

Current liabilities:

Accounts payable		60,858
Total current liabilities		60,858

Noncurrent liabilities:

Developer deposits held		815,289
Compensated absences		3,507
Other post employment benefits		170,199
Total noncurrent liabilities		988,995

<b>Total Liabilities</b>		1,049,853
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**Net Assets:**

Unrestricted		3,096,928
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<b>Total Net Assets</b>		\$ 3,096,928
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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 ASSETS**  
**YEAR ENDED DECEMBER 31, 2010**

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<b>Operating Revenues:</b>	
Rental income	\$ 6,000
Total Operating Revenues	6,000
 <b>Operating Expenses:</b>	
Administrative	778,780
Professional services	141,502
Project consulting	269,461
Property maintenance	36,431
Total Operating Expenses	1,226,174
<b>Operating Loss</b>	(1,220,174)
 <b>Nonoperating Revenues:</b>	
Investment income	50,672
Total Nonoperating Revenues	50,672
<b>Change in Net Assets</b>	(1,169,502)
<b>Net Assets - Beginning of year</b>	4,266,430
<b>Net Assets - End of year</b>	\$ 3,096,928

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, 2010**

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**Cash Flows from Operating Activities:**

Rental income	\$ 6,000
Developer deposits held	475,721
Payments to vendors	(583,310)
Payments for compensated balances	(431,745)
Payments for wages and benefits	(530,336)
	(530,336)

Net cash used in operating activities (1,063,670)

**Cash Flows from Investing Activities:**

Net transfers from investments	2,330,498
Development projects	(500,139)
Investment income	50,672
	50,672

Net cash provided by investing activities 1,881,031

**Net Change in Cash and Cash Equivalents** 817,361

**Cash and Cash Equivalents:**

Beginning of year	544,738
End of year	\$ 1,362,099

**Reconciliation of Operating Income to Net Cash Used In Operating Activities:**

Operating loss	\$ (1,220,174)
Changes in assets and liabilities:	
Accounts receivable	(511)
Other assets	19,200
Accounts payable and accrued expenses	(412,590)
Developer deposits held	475,721
Other post employment benefits	74,684
	74,684

Net cash used in operating activities \$ (1,063,670)

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, 2010**

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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. For the year ended December 31, 2010, the Authority did not operate with a valid board of directors.

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.

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

*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.

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, 2010 was \$749,934.

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 are fully depreciated for the year ended December 31, 2010.

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 is not required and, therefore, does not have a legally adopted budget and has not presented budgetary information. The Authority does not have a budget approved by the Board of Directors.

#### **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, 2010, the Authority maintained seven certificates of deposits with four 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, 2010, bank deposits totaled \$257,433 which includes \$11,048 of money market funds. Of the total bank deposit balance, \$19,620 was uninsured as year end.

Investment Maturities – The Authority maintains all of its investments in the form of certificates of deposit. As of December 31, 2010, each certificate of deposit is scheduled to mature within one year. The Authority maintained \$3,128,370 in certificates of deposit. Of this total, \$1,104,666 is scheduled to mature within three months or less and have therefore been reported as cash equivalents in the Authority's financial statements.

**NOTE D – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2010, is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciation:				
Furniture	\$ 8,471	\$ -	\$ -	\$ 8,471
Equipment	6,501	-	-	6,501
Total capital assets being depreciated	<u>14,972</u>	<u>-</u>	<u>-</u>	<u>14,972</u>
Less accumulated depreciation for:				
Furniture	(8,471)	-	-	(8,471)
Equipment	(6,501)	-	-	(6,501)
Total accumulated depreciation	<u>(14,972)</u>	<u>-</u>	<u>-</u>	<u>(14,972)</u>
Capital assets, net of accumulated depreciation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## NOTE E – 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, 2010, 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 covered payroll for employees covered by the System for the year ended June 30, 2010 was approximately \$366,000.

*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. Participants with hire dates subsequent to January 1, 1978 must have 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, 2010, 2009 and 2008 were \$45,366, \$38,539 and \$35,979, respectively. This equaled its required contribution for each fiscal year. At December 31, 2010 the Authority did not have a net pension obligation.

#### **NOTE F – 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 three active employees and eleven 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	\$ 95,515
Annual required contribution	186,280
Contributions made	<u>(111,596)</u>
OPEB obligation at end of year	<u>\$ 170,199</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
2010	\$ 186,280	59 %	\$ 170,199
2009 *	197,228	52 %	95,515

\* Implementation year for GASB No. 45.

Funding Status and Funding Progress – The funded status of the Plan at December 31, 2010 for the most recent actuarial valuation performed as of July 1, 2009, 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)
\$ -	\$ 1,523,529	\$ 1,523,529	0.0%	\$ 349,054	436.5%

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, 2009
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay
Remaining amortization period	10 years as of January 1, 2009
Interest discount rate	4%
Healthcare/medical cost trend rate	10% grading down to 5% in year 2015

**NOTE G – 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 March 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>
2011	\$ 54,196
2012	54,196
2013	54,196
2014	<u>13,549</u>
Total	<u>\$ 176,137</u>

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.

**NOTE H – SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through August 26, 2013, which is the date the financial statements were available to be issued.

Sale of Parcel of Land – In August 2012, the Authority formalized the sale of a parcel of land. The value of this sale totaled \$514,805. Accordingly, this asset has been adjusted to market value and is shown as development projects held for sale on the accompanying statement of net assets for the year ended December 31, 2010.

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.

There are no additional subsequent events to disclose.

## NOTE I – IMPLEMENTATION OF GASB PRONOUNCEMENTS

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements. The provisions of GASB 60 are effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2012). The Authority does not expect that the adoption of GASB 60 will have a material effect on its financial statements.

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of GASB 61 are effective for financial statements for periods beginning after June 15, 2012 (fiscal year 2013), although early adoption is permitted. The Authority is currently evaluating whether its adoption will have a material impact on the financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement was to incorporate into the GASB authoritative literature guidance that previously could only be found in certain Financial Accounting Standards Board (“FASB”) and American Institute of Certified Public Accountants (“AICPA”) pronouncements. The provisions of GASB 62 are effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2012). The Authority is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The provisions of GASB 63 are effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2012). The Authority is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The provisions of GASB 64 are effective for financial statements for periods beginning after June 15, 2011 (fiscal year 2012), although early adoption is permitted. The Authority is currently evaluating whether its adoption will have a material impact on the financial statements.

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 this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2013). The Authority is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2012, the GASB issued GASB Statement No. 66, *Technical Corrections – 2012 – 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 this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2013). 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. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. 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. The 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 (fiscal 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 (RSI). The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). 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, 2010**

**SCHEDULES OF FUNDING PROGRESS**

**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)
1/1/2010	\$ 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%
1/1/2006	632,059	740,320	108,261	85.4%	201,088	53.8%

**Other Post Employment 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)
1/1/2009	\$ -	\$ 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
2010	\$ 28,554	\$ 28,554	100.0%	\$ 45	0.2%
2009	27,728	27,728	100.0%	39	0.1%
2008	26,891	26,891	100.0%	36	0.1%

**Other Post Employment Benefits**

Year Ended December 31,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2010	\$ 186	\$ 112	60.2%
2009	197	102	51.8%

See accompanying independent auditor's report.

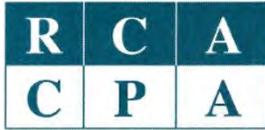
**CAMBRIDGE REDEVELOPMENT AUTHORITY**

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*

YEARS ENDED DECEMBER 31, 2010  
AND DECEMBER 31, 2011

**CAMBRIDGE REDEVELOPMENT AUTHORITY  
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**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***

To the Honorable Board of Directors  
Cambridge Redevelopment Authority  
Cambridge, Massachusetts

We were engaged to audit the statement of net assets of the Cambridge Redevelopment Authority (the Authority) as of December 31, 2010 and December 31, 2011, and the related statement of revenues, expenses, and changes in net assets and cash flows for the years then ended, which collectively comprise the Authority's basic financial statements and have issued our reports thereon dated August 26, 2013. Except as explained in the following paragraph, 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.

Due to the timing of this report and complete turnover in Authority personnel, the management of the Authority was not able to furnish us with written representations. Such representations are required in order for the audit to be in accordance with auditing standards generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be a significant deficiency.

*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. We consider the deficiencies described as items 2010-2011-01 and 2010-2011-02 in the accompanying schedule of findings to be material weaknesses.

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. The other matters that we reported to management referenced below did not rise to the level of significant deficiencies.

### **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 that item 2010-2011-01 and 2010-2011-02 are also instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Authority in a separate letter dated August 26, 2013.

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



Roselli, Clark and Associates  
Certified Public Accountants  
Woburn, Massachusetts  
August 26, 2013

**CAMBRIDGE REDEVELOPMENT AUTHORITY  
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS  
YEARS ENDED DECEMBER 31, 2010 AND 2011**

**Finding**

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**2010-2011-01.**

**Type: Material Weakness, Noncompliance with Laws and Regulations**

**Area: Local Governance**

*Criteria:* The Authority is authorized under Chapter 121B of the General Laws, also known as the Housing and Urban Renewal Law. Therefore, the Authority is required to operate under the provisions of this legislation.

*Statement of Condition:* Under Chapter 121B, Redevelopment Authorities are required to operate under a five-member Board of Directors. Four are appointed by the local government (City of Cambridge) and the fifth is a Commonwealth of Massachusetts appointment. It was concluded by Counsel, that the Authority did not operate with a quorum from September 2009 through May 2012, and did not meet from March 2010 through May 2012.

*Cause and Effect:* During this period, the Authority did not operate under the governance required by the legislative act that allowed its creation. This led to numerous collateral consequences mainly surrounding violations of the Authority's bylaws. These included but are not limited to the following:

- a. All contracts were signed by the Executive Director despite the bylaws requiring the Chairman of the Board to sign these contracts in the absence of a specific vote of the Authority to the contrary.
- b. The bylaws require the Treasurer, or in the Treasurer's absence, the Assistant Treasurer shall sign all orders and checks for the payment of money, and shall pay out and disburse such moneys **under the direction of the Authority,** except as otherwise authorized by resolution of the Authority. In effect, all checks written between September 2009 and May 2012 were not disbursed under the direction of the Authority since the Authority did not meet with a quorum in place during this period.
- c. In addition, the Executive Director, who, under Article II, section 5 of the Authority's bylaws, had care and custody of the Authority's funds, had the signing responsibility of the account instead of the Treasurer as stated in the bylaws. Since no quorum of the Authority met, annual officer elections were not held for fiscal year 2010 or

2011.

- d. The bylaws require that the Executive Director's salary is determined by the Authority. Adjustments were made to salary and since a quorum did not exist, these adjustments which were made retroactive to July 1, 2010, were made without Board approval.

The effect of these instances, is that the possibility of unauthorized transactions may occur, thus placing the internal control system in jeopardy. In addition, these instances have caused the Authority to be out of compliance with Chapter 121B and its own bylaws.

*Recommendation:* Take the necessary steps to create a fully functioning Board and implement policies to require adherence to the Authority's bylaws.

*Corrective Action Plan:* In April 2012, the City of Cambridge appointed 4 members to the Board of Directors. Elections for Officer's were held, resulting in the election of a Chairman, Treasurer, Secretary, Clerk and Assistant Treasurer. Under the direction of this new Board, the Authority has undergone numerous positive changes. In particular, the Authority has declared many of its contracts with vendors to be void, has procured new vendors where appropriate and necessary in accordance with the requirements of Chapter 30B, has revised its bylaws, has developed a website on which it publishes current and historical information, has adopted a practice of meeting monthly, has invited the public to offer comment at its meetings, has enlisted the support of the City of Cambridge in important areas such as management, bookkeeping and investment advice, has conducted outreach and held joint meetings with the Planning Board and members of the City Council, has reviewed and revised its banking practices and has begun a strategic planning process to chart its future. In short, while there is more work to be done, there has been a lot of positive change to the Authority's practices in the one year since its first meeting.

In addition, a special investigation was conducted by Special Counsel. It was concluded by Special Counsel that the former Executive Director's pay rate increases were unauthorized. The Authority sent a letter of demand for approximately \$80,000 to the Executive Director as a result of this special investigation.

**2010-2011-02.**

**Type: Material Weakness, Noncompliance with Laws and Regulations**

**Area: Procurement – Massachusetts General Laws Chapter 30B (30B)**

*Criteria:* Massachusetts General Laws, Chapter 30B allows an exemption from land-related procurement regulations for entities such as Redevelopment Authorities when they are engaged in the development and disposition of real property in accordance with an approved plan. This exemption does not extend to the procurement of goods and services in the normal course of business.

*Statement of Condition:* While reviewing expenditures for fiscal years 2010 and 2011, we noted several instances in which the Authority did not follow 30B when it was required to do so.

*Cause and Effect:* The lack of compliance with 30B is not in accordance with the procurement regulations of the Commonwealth and also may not result in the most beneficial economic arrangement for the Authority since in numerous situations, other vendors were not reviewed.

*Recommendation:* The Authority should establish a policy that includes a requirement to follow the competitive solicitation practices of Chapter 30B in those instances that an exemption does not exist.

*Corrective Action Plan:* New policies have been adopted since a new Board was appointed. Specifically, strict adherence to 30B will be followed in all instances that it is required.

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

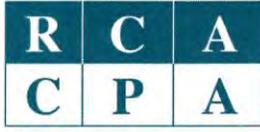
Report on Examination of  
Basic Financial Statements  
And Additional Information  
Year Ended December 31, 2011

**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

We were engaged to audit 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, 2011, and the related statements of revenues, expenses and changes in net assets, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as explained in the following paragraph, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall basic financial statement presentation.

The management of the Authority did not furnish us with written representations. Such representations are required in order for the audit to be in accordance with auditing standards generally accepted in the United States of America. Because the management of the Authority did not furnish us with written representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Authority's basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 26, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, 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.

*Roselli Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
August 26, 2013

## 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, 2011. 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 \$10,740,142 (*total net assets*). This entire amount may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's total net assets increased by \$7,643,214. Due to the nature of the Authority's operations, revenues from development project sales have long term cycles while operating expenses generally approximate \$1 million or more each year. In 2011, the Authority recorded operating revenues of \$8,506,125, which primarily consisted of the sale of developer rights; nonoperating revenues included \$27,106 in interest income earned on the Authority's investments and \$69,325 of Federal grant money.

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

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets 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 Assets

	December 31, 2011	December 31, 2010
<b><u>Assets</u></b>		
Current and other assets	\$ 11,040,533	\$ 4,146,781
Total assets	<u>11,040,533</u>	<u>4,146,781</u>
<b><u>Liabilities</u></b>		
Long-term liabilities	250,144	988,995
Other liabilities	50,247	60,858
Total liabilities	<u>300,391</u>	<u>1,049,853</u>
<b><u>Net Assets</u></b>		
Unrestricted	<u>10,740,142</u>	<u>3,096,928</u>
Net Assets	<u>\$ 10,740,142</u>	<u>\$ 3,096,928</u>

### Exhibit II - Changes in Net Assets

	Year Ended December 31,	
	2011	2010
<b><u>Operating Revenues:</u></b>		
Program revenues:		
Charges for services	\$ 6,000	\$ 6,000
Operating and capital grants	69,325	-
Sale of developer rights	8,500,125	-
Investment income and other	27,106	50,672
Total revenues	<u>8,602,556</u>	<u>56,672</u>
<b><u>Operating Expenses:</u></b>		
Administrative	549,720	778,780
Professional services	22,616	141,502
Project consulting	322,456	269,461
Property maintenance	64,550	36,431
Depreciation	-	-
Total expenses	<u>959,342</u>	<u>1,226,174</u>
Change in net assets	<u>7,643,214</u>	<u>(1,169,502)</u>
Net assets - beginning of year	<u>3,096,928</u>	<u>4,266,430</u>
Net assets - end of year	<u>\$ 10,740,142</u>	<u>\$ 3,096,928</u>

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Authority, assets exceeded liabilities by \$10,740,142 at the close of the most recent fiscal year.

The Authority's net assets are categorized as unrestricted. Accordingly, the entire net asset amount is available for spending on future development projects and administrative costs as determined and directed by the Authority's Board of Directors.

The Authority's total net assets increased by \$7,643,214. Due to the nature of the Authority's operations, revenues from development project sales have long term cycles while operating expenses generally approximate \$1 million or more each year. In 2011, the Authority recorded operating revenues of \$8,506,125, which primarily consisted of the sale of developer rights; nonoperating revenues included \$27,106 in interest income earned on the Authority's investments and \$69,325 of Federal grant money.

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

The Authority's capital assets are not significant at December 31, 2011. The Authority held \$749,944 in development projects held for sale at December 31, 2011. Of this total, \$514,805 was categorized as short-term due to the nature of these assets.

As of December 31, 2011, 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 Cambridge Urban Renewal District as provided within its authority and mandate. The Authority will make this possible through funds from the sale of development rights as well as federal earmark grants.

### **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, One Cambridge Center, 4<sup>th</sup> Floor, Cambridge, MA 02142.

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

**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2011**

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**Assets:**

Current assets:

Cash and cash equivalents	\$ 2,476,160
Investments	618,415
Accounts receivable	
Sale of development rights	7,186,036
Other	2,682
Development projects held for sale	514,805
Other assets	7,306
Total current assets	<u>10,805,404</u>

Noncurrent assets:

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

**Total Assets** 11,040,533

**Liabilities:**

Current liabilities:

Accounts payable	<u>50,247</u>
Total current liabilities	<u>50,247</u>

Noncurrent liabilities:

Developer deposits held	1,200
Compensated absences	3,507
Other post employment benefits	<u>245,437</u>
Total noncurrent liabilities	<u>250,144</u>

**Total Liabilities** 300,391

**Net Assets:**

Unrestricted	<u>10,740,142</u>
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**Total Net Assets** \$ 10,740,142

See accompanying notes to basic financial statements.

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2011**

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<b>Operating Revenues:</b>	
Rental income	\$ 6,000
Sale of developer rights	8,500,125
Total Operating Revenues	<u>8,506,125</u>
<b>Operating Expenses:</b>	
Administrative	549,720
Professional services	22,616
Project consulting	322,456
Property maintenance	64,550
Total Operating Expenses	<u>959,342</u>
<b>Operating Income</b>	<u>7,546,783</u>
<b>Nonoperating Revenues:</b>	
Intergovernmental grants	69,325
Investment income	27,106
Total Nonoperating Revenues	<u>96,431</u>
<b>Change in Net Assets</b>	7,643,214
<b>Net Assets - Beginning of year</b>	<u>3,096,928</u>
<b>Net Assets - End of year</b>	<u>\$ 10,740,142</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, 2011**

<b>Cash Flows from Operating Activities:</b>	
Rental income receipts	\$ 6,000
Proceeds from sale of development rights	500,545
Payments to vendors	(562,815)
Payments for wages and benefits	(331,900)
	(388,170)
 <b>Cash Flows from Capital and Related Financing Activities:</b>	
Intergovernmental grants	69,325
Net cash provided by capital and related financing activities	69,325
 <b>Cash Flows from Investing Activities:</b>	
Net transfers from investments	1,405,800
Investment income	27,106
	1,432,906
Net cash provided by investing activities	1,432,906
<b>Net Change in Cash and Cash Equivalents</b>	1,114,061
 <b>Cash and Cash Equivalents:</b>	
Beginning of year	1,362,099
End of year	\$ 2,476,160
 <b>Reconciliation of Operating Income to Net Cash Used In Operating Activities:</b>	
Operating income	\$ 7,546,783
Changes in assets and liabilities:	
Accounts receivable	(7,185,491)
Other assets	-
Accounts payable and accrued expenses	(10,611)
Developer deposits held	(814,089)
Other post employment benefits	75,238
	75,238
Net cash used in operating activities	\$ (388,170)

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, 2011**

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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. For the year ended December 31, 2011, the Authority did not operate with a quorum of board of directors.

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.

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

*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.

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, 2011 was \$749,934.

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 are fully depreciated for the year ended December 31, 2011.

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 is not required and, therefore, does not have a legally adopted budget and has not presented budgetary information. The Authority does not have a budget approved by the Board of Directors.

#### **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, 2011, the Authority maintained seven certificates of deposits with five 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, 2011, bank deposits and money market funds totaled and \$442,854. Of the total bank deposit balance, \$195,295 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, 2011, each certificate of deposit is scheduled to mature within one year. The Authority maintained \$2,651,721 in certificates of deposit. Of this total, \$2,033,306 is scheduled to mature within three months or less and have therefore been reported as cash equivalents in the Authority's financial statements.

#### **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, 2011, 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, 2011 was approximately \$135,000.

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. Participants with hire dates subsequent to January 1, 1978 must have 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, 2011, 2010 and 2009 were \$50,852, \$45,366, and \$38,539. This equaled its required contribution for each fiscal year. At December 31, 2011 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 three active employees and eleven 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	\$ 170,199
Annual required contribution	197,994
Contributions made	(122,756)
OPEB obligation at end of year	<u>\$ 245,437</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
2011	\$ 197,994	62 %	\$ 245,437
2010	186,280	59 %	170,199
2009 *	197,228	52 %	95,515

\* Implementation year for GASB No. 45.

Funding Status and Funding Progress – The funded status of the Plan at December 31, 2011 for the most recent actuarial valuation performed as of July 1, 2009, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued 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)
\$ -	\$ 1,523,529	\$ 1,523,529	0.0%	\$ 349,054	436.5%

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, 2009
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of pay
Remaining amortization period	10 years as of January 1, 2009
Interest discount rate	4%
Healthcare/medical cost trend rate	10% grading down to 5% in year 2015

## NOTE G – 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 March 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>
2012	\$ 54,196
2013	54,196
2014	<u>13,549</u>
Total	<u>\$ 121,941</u>

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.

#### **NOTE H – SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through August 26, 2013, which is the date the financial statements were available to be issued.

Sale of Parcel of Land – In August 2012, the Authority formalized the sale of a parcel of land. The value of this sale totaled \$514,805. Accordingly, this asset has been adjusted to market value and is shown as development projects held for sale on the accompanying statement of net assets for the year ended December 31, 2011.

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.

There are no additional subsequent events to disclose.

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

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements. The provisions of GASB 60 are effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2012). The Authority does not expect that the adoption of GASB 60 will have a material effect on its financial statements.

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of GASB 61 are effective for financial statements for periods beginning after June 15, 2012 (fiscal year 2013), although early adoption is permitted. The Authority is currently evaluating whether its adoption will have a material impact on the financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement was to incorporate into the GASB authoritative literature guidance that previously could only be found in certain Financial Accounting Standards Board (“FASB”) and American Institute of Certified Public Accountants (“AICPA”) pronouncements. The provisions of GASB 62 are effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2012). The Authority is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The provisions of GASB 63 are effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2012). The Authority is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The provisions of GASB 64 are effective for financial statements for periods beginning after June 15, 2011 (fiscal year 2012), although early adoption is permitted. The Authority is currently evaluating whether its adoption will have a material impact on the financial statements.

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 this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2013). The Authority is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2012, the GASB issued GASB Statement No. 66, *Technical Corrections – 2012 – 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 this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2013). 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. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. 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. The 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 (fiscal 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 (RSI). The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014 (fiscal year 2015). The Authority believes the adoption of this statement will have a material impact on the financial statements.

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

**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED DECEMBER 31, 2011**

**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)
1/1/2010	\$ 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%
1/1/2006	632,059	740,320	108,261	85.4%	201,088	53.8%

**Other Post Employment 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)
1/1/2009	\$ -	\$ 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
2011	\$ 32,213	\$ 32,213	100.0%	\$ 51	0.2%
2010	28,554	28,554	100.0%	45	0.2%
2009	27,728	27,728	100.0%	39	0.1%

**Other Post Employment Benefits**

Year Ended December 31,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2011	\$ 198	\$ 123	62.1%
2010	186	112	60.2%
2009	197	102	51.8%

See accompanying independent auditor's report.

**CAMBRIDGE REDEVELOPMENT AUTHORITY**

MANAGEMENT LETTER

DECEMBER 31, 2010 and 2011

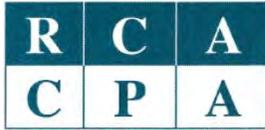
**CAMBRIDGE REDEVELOPMENT AUTHORITY**

**MANAGEMENT LETTER**

**YEARS ENDED DECEMBER 31, 2010 AND 2011**

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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 years ended December 31, 2010 and 2011, 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 control deficiencies, significant deficiencies, or material weaknesses. We identified deficiencies that we have considered both material weaknesses and significant deficiencies. Those are identified as such in the body of this report.

This communication is intended solely for the information and use of management, the Board of Directors 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  
August 26, 2013

## I. INTRODUCTION AND ECONOMIC DISCUSSION

The City of Cambridge is one of the more financially solvent communities in the Commonwealth of Massachusetts. With approximately \$123 million in reserves constituting over 22% of its operating budget, it ranks only behind Boston in terms of total amount of reserves. Furthermore, in terms of reserves as a percentage of budget it ranks first of all communities greater than \$50 million in budget and well above the State average of 6.6%. The City prides itself on its financial stability maintaining a strong AAA bond rating and an attraction to the young professional technically savvy crowd.

One of Cambridge's most productive assets is Kendall Square, a technology mecca. The area has been built up significantly since the 1970's under an Urban Renewal Plan administered by the Authority. Since the Plan went into effect in 1976, over 3 million square feet of gross floor area has been developed, that engenders a tax valuation base of \$800 million and generates \$15 million in property taxes and user fees annually. The area is home to in excess of 7,500 jobs that in turn provide economic stimulus to the parking garages, restaurants, hotels, local transit and other area amenities that all directly or indirectly positively impact Cambridge.

In recent years, the Authority's activity has slowed down considerably as the Authority has sold off much of its land and reduced its staff. There has also been much consolidation within the offices. The Authority's long-time Executive Director of over 30 years retired at the end of 2010 and until recently, had been working on a part-time basis.

This dormant period was primarily to blame for a breakdown in governance, and proper administration of policies and procedures, as oversight of the Authority diminished due to lack of activity. These issues are described in detail in the body of this report.

This report covers the years 2010 and 2011. We are aware that the Authority has undergone a significant change in leadership and a transformation since May, 2012 when the current members of the Authority met for the first time. We congratulate the Authority on the steps it has taken to correct past issues swiftly and decisively. In particular, we note that the Authority has declared many of its contracts with vendors to be void, has procured new vendors where appropriate and necessary in accordance with the requirements of Chapter 30B, has revised its bylaws, has developed a website on which it publishes current and historical information, has adopted a practice of meeting monthly, has invited the public to offer comment at its meetings, has enlisted the support of the City of Cambridge in important areas such as management, bookkeeping and investment advice, has conducted outreach and held joint meetings with the Planning Board and members of the City Council, has reviewed and revised its banking practices and has begun a strategic planning process to chart its future. In short, while there is more work to be done, there has been a lot of positive change to the Authority's practices in the one year since its first meeting.

This positive direction is of particular importance in light of an infusion of revenue at the end of 2011 that marked the first significant activity since at least 2008 and could be a sign of increased activity in the near future.

If this infusion is a harbinger of increased activity, it is critical that the areas of concern addressed in this report be corrected so that the Authority can be assured that internal controls are operating at an optimum level under the auspices of adequate governance and direction. Those areas that have already been addressed by management are noted either as part of our discussion or in the sections identified as the Authority's Response.

## II. INFORMATIONAL ITEMS

### **Statement on Auditing Standards No. 115 – Audit Communications**

In 2008 the American Institute of Certified Public Accountants (“AICPA”) 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:

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 and those items are identified as such in the applicable sections where they are discussed. *Deficiencies in internal control* are not required to be communicated; however, the Authority has requested that we also report that type of deficiency in this report in order for the Authority to strengthen its internal controls and operating efficiency.

December 31, 2009 was the first year this standard was in effect.

### **Consideration of Fraud and Theft**

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 suggest the Authority implement written fraud risk policies and include these policies in 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.

**Create policy and procedure manual**

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 Authority; 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 Authority. Such a manual should provide control procedures surrounding:

- a. Purchasing
- b. Payroll
- c. Cash receipts
- d. Human resources – vacation and sick accruals
- e. Investment policies
- f. Fraud (see above)
- g. Fixed assets

**Authority's Response:** *The Authority is in the process of drafting, considering, and adopting policies that will address controls in each of the areas identified as well as other areas where it sees fit.*

### III. GENERAL FINDINGS

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

Under Chapter 121B of the Massachusetts General Laws, Redevelopment Authorities are required to operate under a five-member Board of Directors. Four are appointed by the local government (City of Cambridge) and the fifth is a Commonwealth of Massachusetts appointment. It was brought to our attention that the Authority did not meet with a quorum in place from September 2009 through May 2012, and did not meet at all from March 2010 through May 2012.

As a result, during this period, the Authority did not operate under the governance required by the legislative act that allowed its creation. This led to numerous collateral consequences mainly surrounding violations of the Authority's bylaws.

These include but are not limited to the following:

- a. All contracts were signed by the Executive Director despite the bylaws requiring the Chairman of the Authority to sign these contracts in the absence of a specific vote providing otherwise.
- b. The bylaws state that the Treasurer, or in the Treasurer's absence, the Assistant Treasurer shall sign all orders and checks for the payment of money, and shall pay out and disburse such moneys **under the direction of the Authority**, except as otherwise authorized by resolution of the Authority. In effect in the absence of a specific vote providing otherwise, all checks written between September 2009 and May 2012 were not disbursed under the direction of the Authority since the Authority did not meet with a quorum in place during this period.
- c. In addition, the Executive Director, who, under Article II, section 5 of the Authority's bylaws, had care and custody of the Authority's funds, had the signing responsibility of the account instead of the Treasurer as stated in the bylaws.
- d. Since no quorum of the Authority met in 2010 or 2011, required annual officer elections were not held for these years.
- e. The bylaws require that the Executive Director's compensation is determined by the Authority. During both fiscal years 2010 and 2011, the Executive Director's salary was paid at a rate as outlined in two inter-office memorandums while a quorum of the Authority did not meet. These actions, originally revealed in an initial review of certain specific actions taken on the Authority's behalf between 2009 and 2012, became the subject of an investigation performed by specially appointed counsel (Special Counsel). Special Counsel's demand letter regarding this investigation is available at the City of Cambridge website under the Cambridge Redevelopment Authority page. We refer readers to this letter for more detail in conjunction with their review of this report.

It should also be noted that while the focus of the special investigation was the former Executive Director's salary increases, the other two employees working for the Authority were also given increases in these instances.

The effect of these instances is the likelihood that, without remedies taken by the Authority, unauthorized transactions may occur thus placing the internal control system in jeopardy. (In fact Special Counsel concluded that unauthorized transactions did in fact occur as delineated in their demand letter.) We note that the Authority has taken steps to correct many of these deficiencies.

In addition, these instances have caused the Authority to be out of compliance with its own bylaws.

***Authority's Response:** In April, 2012, the City of Cambridge appointed 4 members to the Board of Directors and the newly constituted Board met for the first time on May 21, 2012. Elections for Officer's were held, resulting in the election of a Chairman, Treasurer, Secretary, Clerk and Assistant Treasurer. This has corrected the governance deficiency that existed. The Authority has revised its bylaws to reflect current management practices, and, as noted earlier in this report, has taken several other actions designed to improve these deficiencies.*

### **Procurement –**

#### **A. M.G.L. Chapter 30B (Material weakness: Noncompliance with laws and regulations)**

M.G.L. c.30B (30B) requires the following with respect to the procurement of goods and services:

1. Purchases of goods and services under \$5,000 are performed using sound business practices.
2. Purchases for goods and services that are at least \$5,001 and do not exceed \$25,000 require oral or written quotations from no less than 3 persons customarily providing such supply or service; the procurer must record the names, addresses, date and amount; the award must be made to the responsible person offering the needed supply or service at the lowest quotation.
3. Purchases for goods and services that exceed \$25,000 shall conform to competitive sealed bid procedures under an "invitation to bid" and advertisement or a request for proposal.

Certain goods and services are exempt such as legal, engineering, auditing and others and different rules apply under 30B for procurement for sale or lease of real property valued in excess of \$25,000 when acting as seller or as lessor or lessee.

*Redevelopment Authorities are exempt from 30B in the instances when they are engaged in the development and disposition of real property in accordance with an approved urban renewal plan. This has led to the common misunderstanding in many Redevelopment Authorities that they are exempt from 30B in all instances.*

While reviewing expenditures for fiscal years 2010 and 2011, we noted several instances in which the Authority did not follow 30B. When we inquired why this occurred, the Chief Fiscal Officer communicated to us that it was a general consensus at the Authority that Redevelopment Authorities are exempt.

The following are the transactions under question:

1. During 2010 and 2011, the Authority outsourced its information technology maintenance. There was no contract for this service. Total cost for 2010 was \$19,136 and for 2011 was \$15,510. This is not an exempt service under 30B. In this situation, the Authority should have solicited 3 written or oral quotes. In addition, 30B requires contracts for goods and services greater than \$5,000.

The supporting documentation for payment for these services was, in many instances, imbedded in an email that only included the total hours times the rate and no description of what was performed. Also, given that the office consisted of only 3 individuals 4 computers and software no more complex than Quickbooks and Microsoft Office suite, it appears the Authority may have received a more cost effective arrangement had it used the procedures under 30B to procure these services.

***Authority's Response:*** *This service is no longer in place as the Authority now shares technology resources with the City of Cambridge.*

2. During 2010 and 2011 the Authority paid \$31,562 and \$24,494 to a landscaping design company for landscaping and lawn maintenance. While design work is exempt from 30B, lawn maintenance services are not even if they are performed by the design company. The Authority should have, in this situation, solicited the service through an advertised procurement and sealed bid process. This arrangement has existed for several years and continued into 2012, when it was corrected by the Authority. We were unable to obtain the original contract for this arrangement and amendments were signed by the Executive Director and not the Chairman of the Authority as is required per the Authority bylaws.

***Authority's Response:*** *As noted, the Authority has corrected this deficiency through a competitive procurement that was completed in accordance with the requirements of Chapter 30B.*

3. The Authority paid two consulting companies an aggregate amount of \$169,318 in 2010 and \$158,000 in 2011. One of these arrangements began in March of 2000. The original arrangement called for services not to exceed \$40,000 and it appeared that the services were for professional services related to programs of the Authority. Other correspondence indicated that lobbying activities were also involved as part of this

arrangement. The second arrangement began in May 2005 and was scheduled to terminate in August 2005 at a fee of \$3,500 per month. The second arrangement was for strategic communication and community outreach services.

Although we were unable to obtain further documentation beyond the original contracts, assumingly these arrangements were renewed from year to year by the Authority and then by the Executive Director in the years that a quorum of the Authority did not meet. In the final year, the first arrangement called for payments of \$9,000 per month and the second called for payments of \$5,000 per month.

There is no indication that either of these arrangements is exempt from the 30B process; therefore in these situations, the Authority should have solicited these services through an advertised procurement and sealed bid process or a request for proposal.

***Authority's Response:*** *These services are no longer received by the Authority, which terminated its relationship with the consulting companies in 2012. The Authority has referred the details of this matter to its Special Counsel for investigation.*

4. The Authority occupies office space for which it pays a monthly rent. Under 30B, rental of office space in which total payments over the length of the lease exceed \$25,000 must be procured through an advertisement and sealed bid process. There is no indication that 30B was ever followed for the current lease.

With respect to these types of leases, the procurer is not always required to accept the lowest bid and can add restrictive and qualitative language to the procurement. The 30B process is also very complex with respect to terms, renewals and other lease issues. We understand that the current lease is about to expire, and we suggest that future leases are procured under 30B and that the Authority consult with Counsel to assist through the process.

***Authority's Response:*** *The Authority is now beginning the process of considering its space needs into the future and notes that any future lease agreement will be fully compliant with the requirements of Chapter 30B.*

5. The Authority currently acts as lessor on a small piece of property for which it receives \$500 per month in rent. The arrangement appears to be at will since no lease agreement can be located. Certain rules apply with respect to leasing out property. The value of the lease must exceed \$25,000. Since this is an at will arrangement it may fall below this amount and therefore not require solicitation. However, since the agreement has been in place for a number of years it could be interpreted that the intent is for this to be a long-term lease in substance and therefore require a 30B solicitation. We suggest the Authority research this issue.

***Authority's Response:*** *The Authority is beginning the process of considering its need for this property and notes that any future lease agreement will be fully compliant with the requirements of Chapter 30B.*

6. The Authority leases its postage meter. The lease arrangement is greater than 3 years and the aggregate lease amount of the contract is over \$5,000 but less than \$25,000. There are two possible issues with this procurement: (1) office equipment is not exempt from 30B therefore in this situation, the Authority should have solicited the service under the 3 written or oral quotes requirement; and (2) municipal agreements may not exceed 3 years unless approved by the legislative board. There is no indication the Authority approved the terms of this agreement.
7. The same issue as (6) above applies for the copy machine except that this is a 3 year lease which is permissible. Since the aggregate contract cost is more than \$5,000, but less than \$25,000 this would also fall under the 3 written or oral quotes requirement.

There is a possibility that both lease vendors in (6) and (7) are on the State bid list, however when using the State bid list, a certain process must be followed and there is no indication this was done.

***Authority's Response (items 6 and 7):** The Authority is beginning the process of considering its future needs for the copy and postage services. Any future lease agreements for these services will be fully compliant with the requirements of Chapter 30B.*

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 Redevelopment Officer 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 Redevelopment Officer to earn the distinction of becoming a Certified Procurement Officer.

## **B. Other Purchasing Considerations**

The following procurements do not fall under 30B, however, they represent areas in which the Authority should adopt better accounting and administrative policies:

1. The Authority uses a credit card to make certain transactions. These are typically limited to conference registrations, travel and entertainment, and online purchases of computers and software.

We noted a number of issues with the use of the credit card as follows:

- a. On December 22, 2009, February 11, 2011 and January 18, 2012 there were 3 charges; \$209.20, \$159.40 and \$153.60 respectively that represented airline tickets purchased for the Executive Director's spouse. These were purchased as accompanying tickets for an annual conference the Executive Director was attending in Washington DC. The charge incurred on February 11, 2011 was billed back to the Executive Director by the Chief Fiscal Officer on December 31, 2011 and reimbursed by the Executive Director on April 19, 2012. There is no evidence in the records that suggest that the other two charges were billed by the

Chief Fiscal Officer or paid by the Executive Director, and there are no other apparent visible indications that these were reimbursed. Since the Executive Director's spouse is not an employee of the Authority and there are no provisions in the Executive Director's contract to allow this benefit, these costs should have been reimbursed back to the Authority. This conference has been held for a number of years and the Authority should review credit card statements in prior years to determine if this practice was followed prior to 2010 since our review was limited to this timeframe.

***Authority's Response:*** *The Authority has referred the details of these matters to its Special Counsel for investigation.*

- b. On December 17, 2009 and December 9, 2010 there were 2 charges; \$2,502.03 and \$2,958.14 to a local restaurant. There is no documentation in the files regarding what this charge was for, but given the time of year, it appears it is for an annual Holiday Party. These charges did not exist in 2011 and 2012. If the Authority can establish that a public interest is being served through use of these public funds, then these may not be in conflict with Massachusetts General Laws. However if this were the case, it would be prudent to fully document the charge, the purpose and the attendees. In this situation, we believe the Authority should have used more discretion with the use of public funds. We did not review if this transaction represented normal past practice, nor how many years this occurred since our review was limited to this period of time only.

***Authority's Response:*** *The current Board has discontinued the practice of holding Holiday parties.*

- c. As discussed, the Authority's credit card charges referenced in this paragraph B.1. were mainly for travel, meals, lodging and online purchases. There were no original receipts supporting any of the charges, so it was impossible to determine if the expenses were ordinary and necessary or if any ineligible charges such as alcohol on a restaurant bill or other items existed within the detail of the line items. The disbursements were made from the statements themselves which is a poor practice. In addition, in the instance of meals and entertainment, there was no log indicating who was entertained and the purpose of the entertainment.

We advise the Authority to develop a credit card use policy. All charges should be supported by an original receipt and all meals and entertainment expenses should be further supported by a log detailing the person and purpose of the event.

***Authority's Response:*** *The Authority is beginning the process of developing a credit card policy.*

- d. There is one consistent charge per month of \$50 throughout 2010. It is a charge for membership software. We were informed it was software for Kendall Square Association. It is not clear to us if there is a reimbursement process in place with Kendall Square Association, but are pointing out this charge as part of any

settlement agreement with the Association. See further discussion on Kendall Square Association in this report.

**Authority's Response:** *The Authority addresses its relationship with KSA later in this report.*

2. The Authority's cell phone plan includes a cell phone user who is the spouse of the Executive Director. It was explained to us that this occurred several years ago to take advantage of discounts available if the volume of users are increased, and payments were made to reimburse the Authority.

There is no indication that this arrangement was approved by the Authority. The Authority policy on mobile phones should include provisions that mobile phones may not be used by nonemployees.

**Authority's Response:** *The Authority has revised its policy on cell phones to provide that cell phones may only be issued to Authority employees. The Authority has referred the details of this matter to its Special Counsel for investigation.*

3. During 2010 and 2011, the Authority incurred costs of \$8,926 and \$8,273 for phone and internet use. Utilities are exempt from 30B so no laws have been violated however, given the size of the office and office staff this cost appears to be above what might be expected. Since the emergence of many providers of these services, it may make sense for the Authority to solicit prices from other vendors as it continues in its attempt to economize costs.

**Authority's Response:** *The Authority has taken steps to reduce these charges in both 2012 and 2013 and will continue to seek ways to economize on these services.*

4. During 2010 and 2011, the Authority gave charitable organizations \$6,255 and \$7,025 respectively. While this is a humanitarian gesture, the "anti-aid" amendment to the Massachusetts Constitution (Article 46, as amended by Article 103 of the Articles of Amendment) prohibits the use of public money or property "for the purpose of founding, maintaining or aiding any infirmary, hospital, institution, primary or secondary school, or charitable or religious undertaking" that is not publicly owned and controlled. An expenditure may be considered acceptable, however, if it is for a public purpose that also benefits a private organization in an incidental way. No contributions were made in 2012 and we understand this practice has been stopped.

**Authority Response:** *As noted, the Authority has discontinued this practice.*

5. During 2010 and 2011, the Authority incurred costs of \$7,666 and \$7,938 related to dues and subscriptions. It is understood that the Authority will, in the normal course of business, incur such costs, however per review of some of these subscriptions, many of them could be cancelled as the Authority moves forward in its economizing efforts.

**Authority's Response:** *The Authority has taken steps to drastically curtail its outside subscriptions.*

6. The Authority engaged a company to water and feed the plants in the office. During 2010 and 2011 the company came in once per week to perform this task. The cost is not expensive; only \$100 per month, but it's still a cost that the Authority could avoid since there are no more than a half a dozen plants in the office and this could easily be performed by one of the clerical staff.

**Authority's Response:** *The Authority has terminated this practice.*

7. The Authority currently incurs a significant amount of costs related to design work and engineering. Costs incurred during 2010 and 2011 were \$79,223 and \$138,216 respectively. These costs continue to escalate into 2012. Engineering and design services are exempt from 30B however given the significant costs being incurred, we suggest the Authority solicit several quotes prior to making a decision with respect to engineering services.

**Authority's Response:** *The Authority is considering this action as a part of its overall procurement strategy.*

#### **Authorized Bank Account Signatories**

During 2010 and 2011, the Authority used only one authorized signer. In addition, we noted through discussions with management that the current signature cards include authorized signers who are no longer associated with Authority. Management should consider reviewing the current signature cards with all financial institutions and adding / removing signers to strengthen the controls over the check signing policy. This will mitigate the risk of unauthorized access to cash.

**Authority's Response:** *The Authority's banking practices have been completely updated and formalized in a manner consistent with this recommendation.*

#### **Update of Bylaws**

Prior to 2013, 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. We understand that the bylaws were reviewed and updated in 2013.

**Authority's Response:** *As noted, the Authority's bylaws were updated and modernized in 2013.*

#### **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 Authority was met with that exact situation during 2010 when the Executive Director retired and was issued over \$431,000 in benefits for vacation and sick accrual. As stated above, this matter was the subject of the Special Counsel's investigation and subsequent demand letter

We suggest the Authority implement a policy that conforms to the City of Cambridge policy, which includes use or lose vacation pay by year-end, and capped buy back only for sick pay restrictions. This will allow the Authority to meet its financial expectations more easily from year to year without surprises.

***Authority's Response:*** *The Authority is in the process of updating this policy to be consistent with the City of Cambridge's practices. In practice, the Authority has adopted the City's policies, but has not yet formally voted these matters as formal Authority policies.*

### **Cash Disbursements**

#### *1. Prior year costs disbursed during 2011*

The Authority had engaged an engineer for a number of years. This relationship was dissolved during 2011. At the time it was dissolved, the Authority received approximately \$46,000 in invoices from the engineer dating from 2002 to 2010. We were unable to obtain a contract for any of these costs prior to 2009 and therefore were not able to verify if these costs were accurate. The Authority should put a policy in place that prohibits vendors from holding invoices for a prolonged period of time. The older an invoice is, the more difficult it is to determine if the costs are accurate, especially in this situation, where the costs were billed on a time and effort basis which would be impossible to verify.

In a municipal setting, prior year bills need to be approved through a local legislative vote (Council, Alderman or Town Meeting). It is not clear if this is the case in the instance of a 121B organization, but it would be sound practice to include this as a policy.

***Authority's Response:*** *The Authority has revised its payment practices so that this circumstance will not be repeated.*

#### *2. Timing of Invoice Payments*

During our testing of the cash disbursements cycle, we noted one invoice which had a date of March 22, 2011 was paid on February 18, 2011. Through further examination it was determined that the services provided were not received until March 3, 2011. Further, it was discovered that this service was greater than \$5,000, not properly procured under 30B, and no contract existed.

The Authority should implement a procurement policy which does not allow invoices to be paid without services being provided. Implementing this policy will further strengthen controls surrounding the cash disbursement cycle.

**Authority's Response:** *The Authority has revised its payment practices so that this circumstance will not be repeated.*

### 3. 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 an additional layer of controls 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 day-to-day 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.*

### 4. Annual Budget

Unlike Cities and Towns, Redevelopment Authorities are not specifically required to legally adopt an annual budget. As such, no budget was formerly adopted for either fiscal year 2010 or 2011. In our opinion, it is not good business practice to ignore a budget process regardless if a mandate exists or not. A budget allows you to understand your cash needs, monitor your expenses, allow you to invest cash more efficiently and make better management decisions during the year. As part of its policies and procedures, we suggest the Authority adopt a policy that requires the preparation of an annual budget.

**Authority's Response:** *The Authority reinstated its policy of adopting an annual budget in 2012.*

### 5. Petty Cash

During 2010 and 2011 the Authority maintained \$100 in a petty cash fund that it would use for various minor items. When the money ran out a check would be written to the Chief Fiscal Officer who would cash the check and replenish the fund. There were no receipts ever attached to the replenishment of the petty cash fund so it was not possible to determine what the petty cash was used for or if was ever reconciled properly. The activity was relatively minor in amount so this is not a major concern, however better procedures need to be instituted in the future if the Authority wishes to continue to use a petty cash system.

**Authority's Response:** *This practice has been discontinued.*

## 6. *Conference Costs*

As previously discussed, the Executive Director's spouse accompanied the Executive Director to the National Association of Housing and Redevelopment Officials (NAHRO) annual national conference held in Washington DC in 2010, 2011 and 2012. In these situations, prior to attending, a registration form was required to be filled out and if a guest is to attend an additional cost was assessed as listed on the registration form. In those three situations we were unable to determine how much the incremental costs were because the credit card charges were not supported by detailed back up, or if these were paid by the Executive Director directly. (see previous comment).

Annually, there are also 2 other NAHRO conferences besides the Washington DC Conference. During 2010 one was held in Maine, and the Executive Director attended along with his spouse. In this situation, the registration was paid for with a check so there was detailed backup available. Based on our review of this registration, we determined the incremental cost for registration in this situation was \$55 and was paid by the Authority. It is not clear if other costs associated with the trip are increased as a result of a guest.

There is no evidence in the records that suggest that this charge was billed by the Chief Fiscal Officer to the Executive Director or paid by the Executive Director, and there are no other apparent visible indications that this was reimbursed. Since the Executive Director's spouse is not an employee of the Authority and there are no provisions in the Executive Director's contract to allow this benefit, this cost should have been reimbursed back to the Authority.

The Authority should evaluate if it is cost beneficial to review this registration material for all NAHRO conferences attended by the Executive Director to determine if the incremental costs were ever reimbursed, and if not, in aggregate if they are worthy of pursuit.

***Authority's Response:*** *The Authority has referred this matter to its Special Counsel for the purpose of determining an appropriate plan of action.*

## 7. *Check Stock*

From time to time in the Authority check runs, the disbursement register skips check numbers. This could be due to a number of different factors such as checks being destroyed in the check run, or checks being lost or checks being voided. There were 13 such situations during 2010 and only 6 were marked as void while the remainder were left blank. For control purposes it is important to make notations every time a check sequence is skipped. This will assure that all checks are accounted for. Since cash reconciled at year-end, this situation did not uncover any misappropriation, but the process should be improved nonetheless.

**Authority's Response:** *The Authority notes that this action took place in 2010 and has not been repeated since that time. Tighter controls on check stock have been put in place.*

### **Payroll – Timesheets**

During the review period, the Authority required that timesheets were completed and submitted on a biweekly basis. However, payroll is dispensed on a weekly basis, thereby resulting in an inconsistency. Timesheets are a control mechanism regarding the accuracy of payroll; thus, the Authority should change their policy requiring timesheets be completed and submitted on a weekly basis. Changing this policy will provide supporting documentation for hours listed in each employee's individual weekly timesheet.

In addition, the Authority has a policy which requires each employee to sign off on timesheets on a biweekly basis, as well as, a review of each timesheet. While reviewing a sample of these timesheets, it was noted that one timesheet for the Executive Director was signed by the Executive Director as both the employee and the reviewer. We acknowledge that the direct reporting body for the Executive Director was not functioning at this time; however, if timesheets are utilized and there is a policy which requires all to be reviewed, the Authority should consider implementing a procedure which requires that the Executive Director's timesheet be reviewed by a member of the Authority. This policy will allow for proper formalization of all timesheets by both an employee and a reviewer.

**Authority's Response:** *The Authority has adopted a practice of weekly timesheets and biweekly pay, In addition, timesheets are currently reviewed by a member of the Authority*

### **Bank Reconciliations**

During 2010 and 2011, bank reconciliations for all financial institutions were completed on a monthly basis. However, there was no review of the reconciliation being completed. The Authority implemented a policy in 2012 which requires either the Treasurer or Assistant Treasurer to review the bank reconciliations on a periodic basis. This should be done on an unannounced basis. Implementing a review procedure will strengthen the controls over cash management.

**Authority's Response:** *The Authority will take this recommendation under advisement as it considers changes to its current accounting practices.*

### **General Ledger Maintenance**

Based on a comparative review of the general ledger accounts for the years ended December 31, 2011 and 2010, we noticed that multiple asset and liability account balances did not change between years. While these balances are immaterial, management should review and determine the validity of these accounts and adjust as appropriate. One function that should be performed on an annual basis, at a minimum, is a review and reconciliation of all assets and liability accounts to ensure that all account balances are appropriate and reconciled.

**Authority's Response:** *The Authority will take this recommendation under advisement as it considers changes to its current accounting practices.*

**Segregation of Duties**

Currently one employee is opening and forwarding all mail as it arrives in the office. To strengthen controls surrounding this function, a member of the Authority should review unopened bank statements, credit card statements and investment statements on a periodic, unannounced basis. This review should include a search for odd or unusual items, review of cancelled checks returned with bank statements and a review of charges included on monthly credit card statements. Implementing this control can help significantly strengthen controls surrounding the cash management function.

In addition, one employee controls the cash receipt and deposit process. This employee is responsible for the general ledger entry of all cash receipts, preparation of deposit slips and the physical cash deposits at the various financial institutions. To help strengthen controls over this function, management should consider implementing a process which has someone outside of the general ledger function reviewing the deposit slips and doing the bank deposits. This can help to better manage and control the cash receipt process.

**Authority's Response:** *The Authority will take this recommendation under advisement as it considers changes to its current accounting practices.*

**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 Authority should make decisions involving the following as it moves forward:

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 Authority.
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. 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.

**Authority's Response:** *The Authority considers KSA to be an important partner in the continued economic growth and health of Kendall Square. It also recognizes that KSA is a private not-for-profit organization. The Authority has recently entered into a License Agreement with the KSA pursuant to which the KSA will assist in the deferral of some Authority expenses by using Authority space on a short term basis. The Authority's business relationship with the KSA, other than as an active member, has been discontinued. The Authority has written to the KSA in an effort to recover this expense.*

### **Postage Meter Security**

As previously discussed, 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.

**Authority's Response:** *The Authority will look into this issue with the postage meter service company.*

### **Payroll Advances**

During our review of payroll, we determined that an Authority employee was paid two payroll checks for the week of April 25 – May 1, 2010 and was not paid for the week of May 2 – May 8, 2010. There is no explanation in the records why this occurred. On the surface it appears that the employee may have been paid in advance. If this is the case, this practice should be avoided in the future as it is not appropriate to pay employees for services they have not yet rendered.

**Authority's Response:** *The Authority has discontinued this practice.*