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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", written in a cursive style.

Chad Clark, CPA, Partner

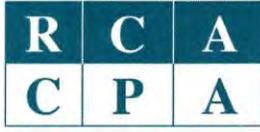
CAMBRIDGE REDEVELOPMENT AUTHORITY
(A Component Unit of the City of Cambridge, Massachusetts)

Report on Examination of
Basic Financial Statements
And Additional Information
Year Ended December 31, 2012

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

TABLE OF CONTENTS
DECEMBER 31, 2012

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 5
BASIC FINANCIAL STATEMENTS:	
Statement of Net Position	6
Statement of Revenues, Expenses and Changes in Net Position	7
Statement of Cash Flows	8
Notes to Basic Financial Statements	9 - 17
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedules of Funding Progress – Pension System and Other Post-Employment Benefits	18
Schedule of Contribution Funding – Pension System and Other Post-Employment Benefits	18



INDEPENDENT AUDITORS' REPORT

Board of Directors
Cambridge Redevelopment Authority
Cambridge, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Cambridge Redevelopment Authority (the "Authority"), a component unit of the City of Cambridge, Massachusetts, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In 2012, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. See Note B for detail regarding the impact this GASB Statement had on the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2012, and the changes in financial position and, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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.

Other Reporting Required By Government Auditing Standards

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.



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, 2012. 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 \$10,990,623 (*total net position*). This entire amount may be used to meet the Authority's ongoing obligations to citizens and creditors.
- The Authority's assets are primarily comprised of cash and investments of \$9,519,929, or approximately 83% of total assets at December 31, 2012. Short and long term development projects held for sale totaled \$1,864,845, or approximately 16% of total assets at December 31, 2012.
- The Authority's total net assets increased by \$250,481. Operating revenues of \$1,639,318 primarily consisted of the sale of development rights in 2012. These revenues exceeded the Authority's operating expenses in 2012 (\$1,466,544).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

FINANCIAL ANALYSIS

Exhibit I - Net Position

	December 31, 2012	December 31, 2011
<u>Assets</u>		
Current and other assets	\$ 11,409,724	\$ 11,040,533
Total assets	11,409,724	11,040,533
<u>Liabilities</u>		
Long-term liabilities	337,157	250,144
Other liabilities	81,944	50,247
Total liabilities	419,101	300,391
<u>Net Position</u>		
Unrestricted	10,990,623	10,740,142
Net Position	\$ 10,990,623	\$ 10,740,142

Exhibit II - Changes in Net Position

	Year Ended December 31, 2012	2011
<u>Revenues:</u>		
Program revenues:		
Charges for services	\$ 9,602	\$ 6,000
Operating and capital grants	-	69,325
Sale of developer rights	1,629,716	8,500,125
Investment income and other	77,707	27,106
Total revenues	1,717,025	8,602,556
<u>Expenses:</u>		
Administrative	518,437	549,720
Professional services	469,903	22,616
Project consulting	440,868	322,456
Property maintenance	37,336	64,550
Total expenses	1,466,544	959,342
Change in net position	250,481	7,643,214
Net position - beginning of year	10,740,142	3,096,928
Net position - end of year	\$ 10,990,623	\$ 10,740,142

As noted earlier, net position may serve over time as a useful indicator of the Authority's financial condition. In the case of the Authority, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,990,623 at the close of the most recent fiscal year.

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

The Authority's total net position at December 31, 2012 increased \$250,481 from the prior year. Operating revenues of \$1,639,318 primarily consisted of the sale of development rights in 2012. These revenues exceeded the Authority's operating expenses in 2012 (\$1,466,544). Nonoperating revenues totaled \$77,707 in 2012 and consisted entirely of interest earned on the Authority's investments. The Authority invests its excess cash resources in certificates of deposit with Massachusetts-based banks.

The Authority's revenues are very seldom consistent from year to year as they are predicated on the successful negotiation of development project sales which vary widely. Current year development project sales were approximately \$1.6 million as compared to the prior year of \$8.5 million. Current year expenses were fairly consistent in all aspects except professional services. The significant increase from the prior year was due mainly to legal services required to research the period of time in which a quorum of the Authority did not meet and to reach conclusions regarding the decisions made during this time and if those decisions were proper.

CAPITAL ASSET AND DEBT ADMINISTRATION

The Authority's capital assets are not significant at December 31, 2012. The Authority held \$235,129 in development projects held for sale. These were classified as long-term assets since they are not expected to be liquidated within 12 months of year-end.

As of December 31, 2012, 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, 4th Floor, Cambridge, MA 02142.

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

STATEMENT OF NET POSITION
DECEMBER 31, 2012

Assets:	
Current assets:	
Cash and cash equivalents	\$ 8,644,588
Investments	875,341
Accounts receivable	
Sale of development rights	1,629,716
Other	18,145
Other assets	6,805
Total current assets	11,174,595
Noncurrent assets:	
Development projects held for sale	235,129
Total noncurrent assets	235,129
Total Assets	11,409,724
Deferred outflows of resources	-
Liabilities:	
Current liabilities:	
Accounts payable	81,944
Total current liabilities	81,944
Noncurrent liabilities:	
Compensated absences	3,507
Other post employment benefits	333,650
Total noncurrent liabilities	337,157
Total Liabilities	419,101
Deferred inflows of resources	-
Net Position:	
Unrestricted net assets	10,990,623
Total Net Position	\$ 10,990,623

See accompanying notes to basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2012

Operating Revenues:	
Rental income	\$ 6,000
Sale of developer rights	1,629,716
Other income	3,602
Total Operating Revenues	1,639,318
 Operating Expenses:	
Administrative	518,437
Professional services	469,903
Project consulting	440,868
Property maintenance	37,336
Total Operating Expenses	1,466,544
Operating Income	172,774
 Nonoperating Revenues:	
Investment income	77,707
Total Nonoperating Revenues	77,707
Change in Net Assets	250,481
 Net Position - Beginning of year	10,740,142
 Net Position - End of year	\$ 10,990,623

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, 2012

Cash Flows from Operating Activities:	
Rental income and other receipts	\$ 9,602
Proceeds from sale of development rights	7,169,373
Payments to vendors	(1,070,985)
Payments for wages and benefits	<u>(275,148)</u>
Net cash provided by operating activities	<u>5,832,842</u>
Cash Flows from Investing Activities:	
Net transfers to investments	(256,926)
Development projects	514,805
Investment income	<u>77,707</u>
Net cash provided by investing activities	<u>335,586</u>
Net Change in Cash and Cash Equivalents	6,168,428
Cash and Cash Equivalents:	
Beginning of year	<u>2,476,160</u>
End of year	<u><u>\$ 8,644,588</u></u>
Reconciliation of Operating Income to Net Cash Provided By Operating Activities:	
Operating income	\$ 172,774
Changes in assets and liabilities:	
Accounts receivable	5,540,857
Other assets	501
Accounts payable and accrued expenses	31,697
Developer deposits held	(1,200)
Other post employment benefits	<u>88,213</u>
Net cash provided by operating activities	<u><u>\$ 5,832,842</u></u>

See accompanying notes to basic financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

NOTE A – REPORTING ENTITY

The Cambridge Redevelopment Authority (the “Authority”) was established in 1955 pursuant to Chapter 121B of the Massachusetts General Laws, as amended, to administer and plan urban renewal projects and other community development projects within the City of Cambridge, Massachusetts (the “City”). The Authority was issued a Certificate of Organization by the Secretary of the Commonwealth of Massachusetts on November 20, 1956. The Authority is governed by a five-member board of directors, one of whom is appointed by the Governor of the Commonwealth of Massachusetts and the remaining four members by the Cambridge City Council. The Authority did not operate with a valid board of directors until May, 2012.

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.

In 2012, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result of the implementation of this Standard, the Authority reported deferred outflows of resources and deferred inflows of resources in 2012. In addition, the basic financial statements were renamed to the *statement of net position* and *statement of revenues, expenses and changes in net position*. These statements were formerly referred to as the *statement of net assets* and *statement of revenues, expenses and changes in net assets*. All previous references to *net assets* have been replaced with the concept of *net position* in accordance with GASB 63.

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, 2012 was \$235,129.

Capital Assets – Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. All purchases and construction costs in excess of \$1,000 and with useful lives exceeding one year are capitalized at the date of acquisition or construction. The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets (excluding land) are depreciated by the Authority on a straight-line-basis. All depreciable property and equipment are fully depreciated for the year ended December 31, 2012.

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, 2012, the Authority maintained four certificates of deposits with three 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, 2012, bank deposits totaled \$2,568,862 which included \$2,025,162 of money market funds. Of the total bank deposit balance, \$60,228 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, 2012, each certificate of deposit is scheduled to mature within one year. The Authority maintained \$6,951,067 in certificates of deposit. Of this total, \$6,075,726 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, 2012, 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, 2012 was approximately \$111,000.

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

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

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

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

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

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

Disability Retirement – The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Funding Status and Progress – The City has elected provisions of Chapter 32, Section 22D of Massachusetts General Laws, which require that a funding schedule be established to fully fund the accrued liability by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method. Amortization of the unfunded actuarial liability is determined using the level dollar amortization method over a 19-year period. Currently, the City’s funding schedule is calculated to fully fund the accrued liability by June 30, 2029.

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

The total Authority contributions to the System for the years ended December 31, 2012, 2011 and 2010, were \$47,590, \$48,109 and \$45,366, respectively. This equaled its required contribution for each fiscal year. At December 31, 2012 the Authority did not have a net pension obligation.

NOTE E – OTHER POST EMPLOYMENT BENEFITS

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

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

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

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

OPEB obligation at beginning of year	\$ 245,437
Annual required contribution	185,612
Contributions made	<u>(97,399)</u>
OPEB obligation at end of year	<u>\$ 333,650</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
2012	\$ 185,612	52 %	\$ 333,650
2011	197,994	62 %	245,437
2010	186,280	59 %	170,199

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

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

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

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The significant methods and assumptions as of the latest valuation are as follows:

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

NOTE F – COMMITMENTS AND CONTINGENCIES

Facility Lease – The Authority leases office space in Cambridge, Massachusetts. The existing lease agreement requires monthly lease payments totaling approximately \$4,516 through 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>
2013	\$ 54,196
2014	<u>13,549</u>
Total	<u>\$ 67,745</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 G – SUBSEQUENT EVENT

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

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 H – IMPLEMENTATION OF GASB PRONOUNCEMENTS

Current Year Implementations

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 was 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 were effective for financial statements for periods beginning after June 15,

2011 (fiscal year 2012), although early adoption is permitted. The implementation of this Standard did not have a material effect on the Authority's 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 were effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2012). The implementation of this Standard did not have a material effect on the Authority's financial statements.

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 were effective for financial statements for periods beginning after December 15, 2011 (fiscal year 2012). The implementation of this Standard did not have a material effect on the Authority's financial statements.

Future Implementations

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 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, 2012

SCHEDULES OF FUNDING PROGRESS
(Dollars are in thousands)

Total Retirement System (All Participants)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
1/1/2012	\$ 832,297	\$ 1,070,070	\$ 237,773	77.8%	\$ 217,086	109.5%
1/1/2010	796,016	949,908	153,892	83.8%	232,842	66.1%
1/1/2008	766,031	833,034	67,003	92.0%	231,770	28.9%

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

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Fiscal Year Ended December 31,	City of Cambridge Contributory Retirement System (All)			Authority	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contribution	(B / A) Percentage of System Wide Actual Contributions
2012	\$ 29,913	\$ 29,913	100.0%	\$ 48	0.2%
2011	32,213	32,213	100.0%	51	0.2%
2010	28,554	28,554	100.0%	45	0.2%

Other Post Employment Benefits

Year Ended December 31,	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed
2012	\$ 186	\$ 97	52.2%
2011	198	123	62.1%
2010	186	112	60.2%

See accompanying independent auditor's report.

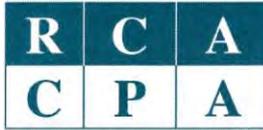
CAMBRIDGE REDEVELOPMENT AUTHORITY

INDEPENDENT AUDITORS' 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

DECEMBER 31, 2012

**CAMBRIDGE REDEVELOPMENT AUTHORITY
TABLE OF CONTENTS
DECEMBER 31, 2012**

	<u>Page</u>
Independent Auditor’s Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1 - 2
Schedules of Findings and Corrective Action Plans.....	3 - 5



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INDEPENDENT AUDITOR'S 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 have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Cambridge Redevelopment Authority (the Authority) as of and for the year ended December 31, 2012, and the related notes to the financial statement, which collectively comprise the Authority's basic financial statements and have issued our reports thereon dated August 26, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and corrective action plans, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

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 in the accompanying schedule of findings and corrective action plans as items 2012-01 and 2012-02 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. We consider the deficiency described in the accompanying schedule of findings and corrective action plans as item 2012-03, to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and corrective action plans as items 2012-01 and 2012-02.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and corrective action plans. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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



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

**CAMBRIDGE REDEVELOPMENT AUTHORITY
SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS
YEAR ENDED DECEMBER 31, 2012**

Finding

2012-01

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 Authority 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.

- 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 Authority 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.

2012-02

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 certain 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. Also see corrective action under 2012-01.

2012-03

Type: Significant deficiency

Area: Authorized bank account signatories

Criteria: It is the Authority's fiduciary duty to properly safeguard assets from abuse or misappropriation.

Statement of Condition: The Authority does not have complete access to all of its bank accounts as there are still old signatories that are listed on bank accounts that have significant amounts of money.

Cause and Effect: The inability for the Authority to have adequate access to all its bank information could result in the lack of performing bank reconciliations and consequently, a material error in the financial statements. More seriously, the lack of complete control over bank information by current employees or directors could result in the abuse or misappropriation of cash.

Recommendation: The Authority should begin the process researching each bank account and taking the necessary steps to assure that signatories and access is only for current employees or directors.

Corrective Action Plan: The Authority is currently in the process of streamlining its banking activities by consolidating the numerous bank accounts it maintains. As part of this process, the Authority will endeavor to properly reflect authorized signers on all of its active accounts.

CAMBRIDGE REDEVELOPMENT AUTHORITY

MANAGEMENT LETTER

DECEMBER 31, 2012

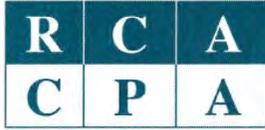
CAMBRIDGE REDEVELOPMENT AUTHORITY

MANAGEMENT LETTER

YEAR ENDED DECEMBER 31, 2012

Table of Contents

	<u>Page(s)</u>
Transmittal Letter.....	1
I. Overview.....	2 - 3
II. Informational Items.....	4 - 5
III. General Findings.....	6 - 13



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Honorable Board of Directors
Cambridge Redevelopment Authority
Cambridge, Massachusetts

In planning and performing our audit of the financial statements of the Cambridge Redevelopment Authority, (the "Authority") as of and for the year ended December 31, 2012, 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. OVERVIEW

Fiscal year 2012 marked the period in which the Authority began to emerge from arguably the most controversial and turbulent era of its 50+ year history. A determination from Counsel that during this period the Authority had not operated under a legally acceptable process from September 2009 through May 2012 called into question many decisions that had been made during this time, and found that certain activities that were undertaken required corrective action, which a newly-constituted Board of Directors quickly addressed.

This was highlighted by allegations that the Former Executive Director approved his own salary increases which subsequently became the subject of an investigation performed by specially appointed counsel (Special Counsel). Special Counsel's demand letter to the Executive Director regarding this investigation is available at the City of Cambridge website under the Cambridge Redevelopment Authority page. We refer readings to the letter for more detail in conjunction with the review of this report.

The discovery and disclosure of these facts led to the resignation of the Former Executive Director. Later, the Chief Fiscal Officer and the lone office staff individual also left the Authority, and an evaluation process regarding the future of the Authority followed.

It was these issues that caused the prior audit firm to withdraw from the 2010 audit and led to the engagement of our firm to conduct the audits for fiscal years 2010 – 2012.

2012 also marked the year where the healing and transition process began. A newly appointed and legally acceptable Board was put in place in May 2012; a transition team led by City of Cambridge employees was mobilized; and an active search for an acting Executive Director began. We are, aware that the Authority has undergone a significant change in leadership and a transformation since May, 2012. 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, and has reviewed and revised its banking practices. 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. Where change has been made to correct a deficiency identified in this report, it has been noted either as part of our discussion or in the sections identified as the Authority's Response.

In addition, a significant infusion of revenue at the end of 2011 was the first significant activity since at least 2008 and this infusion will be used to leverage operations and activities in the event that the Authority continues as a viable entity. Financial reports also show a steady decrease in administrative costs during this period.

Our report to Management on fiscal year 2010 and 2011 included material weaknesses in governance and in procurement. While the Authority has moved quickly to correct past lapses, some of these same issues applied during 2012 and will also be identified as material weaknesses. They will not be repeated in the same level of detail, therefore we urge you to review the report on 2010 and 2011 in conjunction with the review of this report for 2012. In addition, we urge you to review the letter to the Authority written by Special Counsel. All these correspondence are available at the Authority website which is currently imbedded in the City website.

The most significant issue in 2012 relates to the lack of an adequate accounting process. There were a number of accounting adjustments required to close the 2012 fiscal year and in light of the fact that the Authority is absent a Chief Fiscal Officer this is an area that should be addressed promptly.

Despite this, we are happy to report that the Authority made significant improvements otherwise during 2012 and into 2013. Many of the arrangements under procurement that came under question in the 2010/2011 audit letter were terminated, an acting Executive Director was appointed and many new policies and procedures were/are being implemented.

We are encouraged with the effort put forth by the new Board, the former Acting Executive Director, and the recently hired Executive Development Officer and are confident that many of these issues will be completely resolved by the end of fiscal 2013.

II. INFORMATIONAL ITEMS

Statement on Auditing Standards No. 115 – Audit Communications

In 2008, the American Institute of Certified Public Accountants (“AICPA”) recently 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 (repeated from prior year)

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

We 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 (repeated from prior year)

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

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

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

- a. Purchasing
- b. Payroll
- c. Cash receipts
- d. 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 to 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) – repeated from prior year

This finding is repeated from the prior year audit and because it was corrected in May 2012, we are only incorporating the language by reference from the 2010 and 2011 Management Report. We urge you to review the detail in this prior year report in conjunction with this discussion. The weakness relates to the period through May 2012. It was at that time, that the City of Cambridge appointed 4 members to the Board of Directors and the Commonwealth appointed the remaining member. Elections for Officer's were held, resulting in the election of a Chairman, Treasurer, Secretary, Clerk and Assistant Treasurer. This, in effect, corrected the governance deficiency that existed.

Procurement – repeated from prior year

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

In the prior year, we identified numerous possible 30B violations. These violations related to:

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

All 7 issues identified in this area during the 2010/2011 audit also existed through October 2012 in different amounts, until the transition team was mobilized. At that time, many of these were terminated and the service was either ended or replaced through proper procurement. It is the Authority's goal to gain complete compliance in this area by the end of fiscal 2013.

It is worth repeating that 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 Development 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 Development Officer to earn the distinction of becoming a Certified Procurement Officer.

Authority's Response: The Authority references the responses it offered in the 2010-2011 Management Letter on these issues.

B. Other Purchasing Considerations - (repeated from prior year)

In the 2010/2011 Management Report, we identified 7 purchasing practices that do not fall under 30B, but should be evaluated for better accounting and administrative practices:

These include disbursements in the following areas:

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

For specific details regarding the issues in these purchasing areas, please review the 2010/2011 Management Report.

Many of these practices have been discontinued or are in the process of being modified. The Authority expects to adopt better procedures in these areas on a prospective basis.

Appointment of Senior Level Accounting Officer

In September 2012, the Chief Fiscal Officer abruptly resigned. This left the Authority without a dedicated accounting officer. Given that the Authority was still a viable entity with continuing transactions, it became imperative that a stop-gap measure be implemented to assure that the transactional processing activity of the Authority did not lapse. The Authority and the transition team felt that the most advantageous manner to address this was to assign the responsibility of the daily accounting maintenance to the City of Cambridge Community Development Department (CDD). As discussed, this served as a stop-gap measure only as it did nothing more than facilitate the writing of checks for invoices, the processing of payroll and the reporting of budget/expense activity to the Authority. The relationship did not, and was never intended to satisfy all of the accounting needs of the Authority.

The services provided by the CDD were critical to the Authority and the CDD was very successful in delivering those assigned services during dire times and under a situation of duress, as simultaneous with the CDD assuming these duties, a special investigation resulted in a team of investigators removing contracts and many other accounting records from Authority offices. As a result, the CDD was missing much valuable information to perform its tasks in an efficient manner including payroll information, contractual obligations of tenants occupying Authority property and banking information including passwords. They nevertheless were able to continue the processes of invoice payment, federal and state reporting, payroll and budget/expense reporting to the Authority Board from October 2012 to the present day.

The overall accounting function of any viable operation includes many facets beyond the typical day-to-day transaction processing. This is especially the case with governmental entities that operate under complex mandated financial accounting regulations. Closing the books at the end of each year requires a special expertise that was not part of the assigned function of the CDD. As a result there were many deficiencies in the closing process that continued into fiscal 2013.

Some of these deficiencies are highlighted as follows:

1. No fixed asset accounting was done for the fiscal year end. This resulted in several large entries to conform fixed asset to generally accepted accounting principles.
2. The authority maintains a security deposit on its books for \$6,806. There was an entry of \$500 posted to this account that we determined was an error and truly related to a payment from the relationship in (3) below. After adjusting this error, it was determined that the deposit equals \$7,306 and most likely relates to a security rental deposit with Boston Properties. The Authority should not lose track of this deposit as it enters into negotiations to either end or extend the current lease.
3. A rental income relationship for \$500 per month existed with a lessee. The lessee would remit payment to the Authority upon the receipt of a bill. This was not done from October 2012 through May 2013 thus the Authority was out a total of \$3,000. The Authority has been paid up to date at the time of this writing.
4. There was no bill remitted to the former Executive Director for a phone used by his spouse billed for the months August through November. While a bill for June/July was sent by the former Chief Fiscal Officer, there was no follow-up of the amount owed even though this was in the accounts receivable detail. As a result, this arrangement is 6 months in arrears and has still not been paid as of the date of this writing. The Authority should demand payment of these amounts from the Executive Director. The Authority was reimbursed in every instance for this non-employee cost from January 2010 through May 31, 2012. Subsequent to this date, there is no indication that any reimbursement for personal use of phone has been made. Costs for June and July of 2012 were billed to the Executive Director and remain outstanding in the amount of \$225. Costs for August thru November were not billed to the Executive Director but the Authority is owed \$513 for this period. Total unpaid balance for this arrangement was \$738 as of December 31, 2012. We did not review this activity for years prior to 2010. The Authority should demand payment of these amounts from the Executive Director.
5. The liability posted for other post-employment benefits had not been updated since 2011. A report was received from the actuary that does the calculation but nothing was done with this report. This required a material adjustment to correct.
6. Interest income earned during 2012 but not received until fiscal 2013 was not reported as interest income at the end of the fiscal year. This required an adjustment to correct.

7. The compensated vacation accrual liability was reported as both an asset and a liability. This is not proper accounting treatment. This required an adjustment to correct.
8. The payroll withholding accounts were not reconciled at year-end; in fact because there were no employees, the payroll withholding liability should have been zero. This required an adjustment to correct.
9. The acting Executive Redevelopment Officer's salary was made subject to Social Security. Chapter 32 of the Massachusetts General Laws requires that this employee be subject to the Authority's Pension and not Social Security. This has since been corrected on our advice.
10. The acting Executive Redevelopment Officer opted out of health insurance without understanding if this was proper or not. While he was reimbursed through his contract for this opt out, not all the options were laid out as offering health insurance to employees is a legal requirement in Massachusetts. This should be handled properly upon contract renewal.
11. When the Chief Fiscal Officer and office staff individual resigned, they continued to be included in the health insurance rolls. A payment was made for their health insurance and has since been credited back to the Authority. There is no evidence that they were offered COBRA benefits with respect to the health insurance, so it is not clear if this privilege was declined or accepted.
12. There were amounts held as deposits, identified as parcels 3 and 4 in an amount of \$4,354. Since these transactions were completed, an accounting adjustment was required to eliminate this balance and include it as equity.
13. Bank reconciliations are currently not reviewed by anyone. The preparer of the bank reconciliations also is the keeper and administrator of the records. As discussed in the prior year, best efforts should be undertaken to allow the Treasurer to review the bank reconciliations.

The Authority qualifies as a Municipal entity under 121B. As such, municipal finance laws apply. Since the accounting for municipal entities is far more complex than a typical corporation, we feel that the entity's accounting needs would be best served by an individual familiar with municipal finance laws, especially MGLs 30B and 32. Although the activity does not warrant full-time accounting, we believe that a qualified individual working about 16 to 20 hours per month could accomplish the tasks at hand. This individual could be involved in the budget setting process, the monthly activity, approval of contracts and procurement in legal form and the year-end close and audit. In addition, we would suggest that the Authority consider using a payroll service to handle its payroll needs. This would lessen the amount of hours and burden off the accounting individual.

In addition, as discussed in the previous year report, the Authority should strive to try to maintain a segregation of duties. While we understand that this difficult in such a small staffed organization, best efforts should be brought forward to achieve this goal in some form.

Authority's Response: The Authority appreciates the assistance provided by the CDD at a critical time. In particular, the individual assigned to the task of maintaining the transactional activity has done so in a diligent manner. We also understand that a complete accounting function extends beyond the processing of daily transactions and involves numerous journal entries, estimates, reconciliations, financial planning and assuring that the entity is in compliance with strict Massachusetts Finance Laws. As the Authority continues to evaluate its future path, the assessment of its accounting needs will become an integral part of this plan. Appointing a dedicated, qualified accounting individual that can provide competent accounting services is the ultimate goal. Evaluating if this can be performed with a part-time or full-time individual or some combination is the current task. We will be utilizing our auditors to assist us in making this determination but have established this as a high priority. Once an individual is selected we would also request that our auditors work with this individual to address all the issues brought to light in the above discussion and assist in adjusting the records where those deficiencies that have not been corrected currently exist.

Authorized Bank Account Signatories (Significant deficiency)

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

Authority's Response: The Authority is working to resolve this issue as a top priority.

Postage Meter Security - repeated from prior year

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.

Authority Property Not Returned

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

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 is in the process of reviewing the details of this particular matter through its Special Counsel.

Compensated Absences of Resigned Employees

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

Authority's Response: The Authority is in the process of resolving this issue.

Update of Bylaws - repeated from prior year

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 suggest the bylaws be reviewed and updated as a project for calendar year 2013.

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

Cash Disbursements*1. Purchase Orders - repeated from prior year*

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

Authority's Response: The Authority is in the process of adopting revisions to its payment practice that will include the adoption of a Purchase Order system.

2. *Annual Budget - repeated from prior year*

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

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

Vacation and Sick Policies - repeated from prior year

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 and subsequently was determined to have been overpaid in the opinion of Special Counsel.

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.

Kendall Square Neighborhood Association - repeated from prior year

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 Board.
2. The Authority as of 2012 was providing pro-bono services including preparation of the tax filings and other administrative tasks. This is not part of the Authority's mission and thus should consider discontinuing this practice.
3. The Authority incurred costs on behalf of the KSA as noted earlier when it was highlighted that the Authority was being charged \$50 per month for the Association's membership software. In addition, in 2012, the Authority purchased lapel pins on behalf of the KSA. The lapel pins cost \$6,349. The Authority should evaluate whether it would be cost effective to research all costs incurred and bill back KSA or whether to forgive these amounts.

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.