

**SOUTH SHORE TRI-TOWN DEVELOPMENT  
CORPORATION**

***Transition Audit***

***FISCAL YEAR 2015 through August 20, 2014***



SOUTH SHORE TRI-TOWN DEVELOPMENT CORPORATION  
REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

AUGUST 20, 2014

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## South Shore Tri-Town Development Corporation

### *Board of Directors*

Joseph A. Connolly, Chairman,  
John R. Ward, Vice Chairman  
Christopher Aiello, Clerk  
Gerald Eramo, Director  
Jeffrey D. Wall, Director

### *Chief Executive Officer*

Kevin R. Donovan

### *Chief Financial Officer*

James A. Wilson

### **Transmittal Letter**

August 20, 2014

Board of Directors  
South Shore Tri-Town Development Corporation  
223 Shea Memorial Drive  
Weymouth, MA 02190

Dear Sirs:

We are pleased to transmit to you the South Shore Tri-Town Development Corporation financial report for the period July 1, 2014 through August 20, 2014 (the first 51 days of FY2015). For reasons explained below, this audit was conducted as a transitional audit as authorized by the Board of Directors on August 1, 2014.

This report has been prepared by the Finance Department for the South Shore Tri-Town Development Corporation (SSTTDC) in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Government Accounting Standards Board (GASB).

The report consists of management's representations concerning the finances of the SSTTDC. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a system of internal controls that is designed both to protect the assets of the SSTTDC from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the SSTTDC's financial statements in conformity with GAAP.

Since the cost of internal controls should not outweigh their benefits, the SSTTDC's framework of internal controls has been described to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The SSTTDC's financial statements have been audited by Powers & Sullivan, LLC, a firm of licensed certified public accountants, who have been hired by and report to the Board of Directors.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The SSTTDC's MD&A can be found immediately following the report of the independent auditors.

### **GOVERNMENT STRUCTURE UNCERTAIN**

The audit was undertaken in accord with the Tax Plan adopted by the SSTTDC and assented to by the Secretary of Administration and Finance in accord with the 2008 Enabling Legislation.

This audit was necessitated by the enactment of Chapter 291 of the Acts of 2014 on August 21, 2014.

Major structural changes are included in the new law. There are four that are relevant to the reasoning for this audit is:

- a. The SSTTDC ceases to exist, a new entity called the Southfield Redevelopment Authority has been created by Chapter 291
- b. The reference to a Chief Executive Officer was eliminated
- c. The reference to a Chief Financial Officer was eliminated
- d. The Tax Plan as described above was rescinded as of the date of enactment.

Knowing that the law was to be enacted, the Board of Directors on August 1, 2014 passed a measure that:

- a. Terminated the employment contract of the Chief Executive Officer effective immediately
- b. Terminated the employment contract of the Chief Financial Officer effective immediately
- c. Authorized the continued full time employment of Mr. Donovan until August 29, 2014
- d. Authorized the part time employment of Mr. Wilson until August 29, 2014
- e. Authorized a transitional audit
- f. Limited the scope of authority of both Mr. Donovan and Mr. Wilson to matters that concerned (1) FY2014 (2) completion of the transitional audit (3) provide day to day assistance when requested in the administration of the SSTTDC and transition thereof.

Chapter 291 introduces a wide range of changes that are summarized as follows:

1. The terms of the current board of directors are terminated and dissolved on the later of 30 days after the effective date of the Act or when the new Board is constituted which can be no later than 60 days after the effective date of the Act with the provisions to act on ministerial matters with the then effective budget. The current budget authorization expires September 30, 2014. If they wish to make changes to that budget then they may do so only with the approval of the executives of each of the three Towns.
2. The new Board is comprised of 9 members appointed as follows: 2 by the mayor of Weymouth, 2 by the Rockland Selectmen, 1 by the Abington Selectmen, all must be legal residents of each town and comply with the qualifications as outlined in Section 9, 1 appointed by the President of the Norfolk County Labor Council, 2 residents of the NAS South Weymouth 1 of which is appointed by the SouthField Neighborhood Association and the other by a joint appointment of the mayor and Rockland Selectmen from a list submitted by the Neighborhood Association. This appointment must be made within 14 days of becoming eligible to make such appointment or the authority of appointment then falls to the new Board of Directors, and 1 appointed by the South Shore Chamber of Commerce.
3. The master plan and reuse plan are rescinded and terminated and have no further force and effect.
4. The new Board must prepare and submit a budget to the Advisory Board then the executives of each of the three towns for comments and required public hearings per Section 19, after consulting with the state Director of Accounts as to his requirements for the setting of a FY 15 tax rate.
5. During the period between the effective date of the Act and January 1, 2015, the authority may not incur any expenditure that is not consistent with its then-effective budget without the prior written consent of each Executive in each of the three towns per Section 31.
6. By October 15, 2014, a taxation plan must be approved by the Board of Directors and submitted to the secretary of administration and finance and the commissioner of revenue per Section 19 (f).
7. By October 15, 2014, the parties must submit and receive approval from both the secretary of housing and economic development and secretary of administration and finance of a Redevelopment Plan, then and only then may the secretary of administration and finance agree to amend the Parkway Financing Agreement, and either confirmation from the Series 2010A Bond Trustees that an amended agreement is not necessary or an Agreement to allow the collection and remittance of pledged revenue to be collected by the towns AND a funding agreement with the Commonwealth to provide for the funding of the remaining portions of the Parkway. Additionally the provision of assigning the master developer the responsibility of procuring, financing, operating and maintaining a permanent water supply (providing that no water may be supplied to the project from Great Sandy Pond in Pembroke as administered by the Abington-Rockland Joint Water Works per Section 19 (b)) and wastewater infrastructure for the project is contingent on the all of these items in place by October 15, 2014, per Section 15 (a). If the Items in the above ARE completed then the towns are obligated to begin collecting taxes for the fiscal year beginning July 1, 2015 and must begin providing municipal services to its portion on January 1, 2015 per Section 19 (a).
8. By January 1, 2015, each town must accept all existing public ways or ways maintained as public ways together with all associated infrastructure including public utilities and sewer and storm drain lines, without regard to the usual requirements identified in chapter 82, per Section 19 (c) except that the Parkway which shall remain subject to the master developer's control.
9. Effective January 1, 2015 all existing agreements for municipal services except water and sewer are terminated per Section 19 (d).

10. If any of these items mentioned above in 7 and 8 are not agreed to by October 15, 2014 then the towns are NOT allowed to collect taxes beginning January 1, 2015 and the process of providing municipal services and the collection of taxes reverts back to the SouthField Redevelopment Authority, per Section 19 (e).
11. Within 90 days the Board of Directors must revise, re-promulgate, re-issue, re-negotiate and re-execute all regulations promulgated by the authority and currently in effect with all material agreements including the DDA per Section 15
12. Section 14(h)(i) Towns become immediately responsible for all inspectional services.

There have been no sales of land during the first 51 days of FY2015 therefore revenues have been limited to:

- a. Tax revenues
- b. Special Assessment for the FY2015 series 2010A Bond issuance
- c. Miscellaneous building permit fees.

It is noted that the FY2015 tax payment by LNR was not paid in a timely manner. In fact, only through the Office of the Mayor for the Town of Weymouth was the LNR tax and special payment made to the SSTTDC. LNR accounts for 75% of the revenue stream for the SSTTDC.

Furthermore, the Board of Directors adopted a 90 day budget that is due to expire on September 30, 2014. It is clear that the new board of Directors should adopt a budget that will meet the needs of the new Redevelopment Authority through December 31, 2014.

## **FINANCIAL CONTROLS**

There were no changes in the Finance Department from July 1, 2014 through August 20, 2014. For the SSTTDC structure and responsibilities see the Basic Financial Statement of the SSTTDC along with the Transmittal Letter and Management Discussion and Analysis for the period ending June 30, 2014.

The Finance Department continued to be in compliance with internal controls, as there were no personnel changes through August 20, 2014 and the structure insured a reasonable review of the records of the SSTTDC.

## **OVERVIEW**

The SSTTDC was created in 1998. In 1998, the voters of Abington, Rockland and Weymouth adopted a petition (hereinafter the Petition) creating the South Shore Tri-Town Development Corporation to control the land formerly known as the South Weymouth Naval Air Station. In 2008, the MA Legislature, at the request of the Board of Directors, further amended the original petition. The statutory reference is Chapter 303 of the Acts of the MA Legislature in the Year 2008.

In addition to the Petition and the Reuse Plan, the SSTTDC is also required to comply with many state and local finance laws, ordinances and administrative requirements in accord with a Tax Plan required under

the Petition. The Tax Plan was approved in August of 2009 by both the SSTTDC and the Secretary of Administration and Finance.

The SSTTDC is also charged with collecting tax revenue from development within the Base. They appoint a Chief Executive Officer who then appoints the staff including the Chief Financial Officer and a Collector/Treasurer. The office of the Chief Financial Officer was filled in October of 2010. The office of Treasurer/Collector was filled in June of 2012. Both positions were required under the Tax Plan.

The Petition created the Office of Chief Financial Officer reporting to the Board of Directors and requires a centralized/integrated finance department. The Petition also sets forth requirements on the development and submittal of the annual budget and supplementary budgets and appropriation requests.

None of the foregoing was changes for the period July 1, 2014 through August 20, 2014.

As such, SSTTDC operates as a quasi-municipal entity and is required to provide a full range of municipal services including public safety, public roads, sanitation, water, sewer, health and social services, culture, recreation, education, public improvements, planning, zoning and general administrative services. The following services were commenced during FY2013 as there were residents on the site: public safety, public roads, sanitary storm drain management, water distribution, sewer collection, health and social services, recreation, education, public infrastructure maintenance and improvements. As of August 21, 2014, there were approximately 600 residents with 22 school age children. As a result, the Board of Directors funded these services for the first quarter of 2015.

### **OTHER MATTERS OF NOTE**

There were no building permits taken out during the first 51 days of fiscal year 2015.

All tax revenues for the first quarter of FY2015 were based upon estimated FY2015 values (that had not been certified by the MA DOR) and the FY2014 tax rate.

Health care costs for the SSTTDC remained stable as health and dental insurance premiums were not increased during for FY2015.

As of July 1, 2014 there were 7.125 FTEs. By the close of business, August 29, 2014 there will be 4.125 FTE. With the reduced staff, payroll will be substantially reduced thereby insuring sufficient cash for the month of September to meet, payroll and operating expenses. There may not be sufficient cash to pay the Towns for the municipal services provided during the first quarter of fiscal year 2015.

### **ACCOUNTING SYSTEM**

As there were no changes in the accounting system for first 51 days of FY2015, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014 for a detailed discussion of the accounting system.

In summary however, the SSTTDC's accounting system is organized and operated using fund and account groups. The chart of accounts, accounting, and financial reporting policies of the SSTTDC conform to the Generally Accepted Accounting Principles ("GAAP") and reporting standards promulgated by the Governmental Accounting Standards Board ("GASB") and the Massachusetts Department of Revenue - Bureau of Accounts, as well as the reporting requirements for the Department of Elementary and Secondary Education. Budgetary control are centralized and enforced on a statutory accounting basis.

Open encumbrances are reported at the end of FY14 as reservations of fund equity. The total general fund encumbrances as of June 30, 2014 were approximately \$24,542 that vast majority of which was for payments to contract vendors for services rendered during June, 2014. By August 20, 2014 the FY2014 open encumbrances were \$3,614.75.

All capital asset expenditures placed in-service or for which the SSTTDC expended funds were added to those shown in the FY14 end of year general financial statements. There were no assets placed in service during the first 51 days of FY2015. For a detailed discussion of the capital assets, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014.

The Financial Policies and Procedures Manual remained unchanged during the first 51 days of Fiscal Year 2015. For a detailed discussion of the Manual, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014.

### **CASH MANAGEMENT**

Quarterly billing of real estate and personal property taxes coupled with monthly water and sewer utility billing has permitted the SSTTDC to operate on its cash flow.

Investment options are governed by MGL and are limited by liquidity needs. Temporary idle cash was invested in money market and savings accounts. These investments yielded an average rate of return of .75%. All institutions with which the SSTTDC does banking have been rated by Veribanc as "green with three stars". These ratings are reviewed by staff on a semi-annually basis. A policy regarding the type of investment and the institutions for those investments was implemented during FY11.

### **RISK MANAGEMENT**

Evaluating the risks relative to the achievement of the SSTTDC's statutory objectives facilitates the allocation of resources as necessary to manage these risks and best achieve the stated objectives. For a detailed discussion of the certain risks, please see the Basic Financial Statement with transmittal letter and

management and discussion sections for the SSTITDC for the period ending June 30, 2014. Also included in this document, where appropriate, is a discussion of the proposed new enabling law signed into law by the Governor on August 20, 2014.

### **Insurances**

For detailed discussion of the insurances, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTITDC for the period ending June 30, 2014. There has been no significant change in the analysis of this Bond.

The SSTITDC provides medical insurance coverage to employees and retirees through Mayflower Municipal Health Group who also insures Plymouth County Retirees. The SSTITDC pays 75% of the health insurance premiums and 50% of dental insurance.

The SSTITDC is insured for unemployment compensation through a Massachusetts state agency. The SSTITDC carries a short term and long term disability policy on all of its employees; these policies are in place of a sick leave bank.

It is likely that the costs for unemployment compensation will increase as both the CEO and CFO have been terminated. As of August 20, 2014, there have been no state assessments for unemployment compensation claims.

### **BUDGETARY CONSIDERATIONS**

#### **Required Uses of Revenue**

#### **Infra-Structure Land Assessment Bond**

South Shore Tri-Town Development Corporation issued the Series 2010A Infrastructure Development Revenue Bonds in the amount of \$12.55 million of a \$15 million bond authorization on August 9, 2010 (the "Bonds"). The Bonds are secured by Assessments and Pledged Revenues levied on each Parcel of Assessed Property. The Assessments have been imposed upon the real property within the boundaries of the SSTITDC and are limited to those properties transferred under FOST 1 and 2 (June, 2006 conveyance). The Assessments are equal to the interest and principal on the Bonds and estimated administrative expenses related to the bonds. The Assessment Roll twice each Tax Year. This is the first such bond authorized in the Commonwealth of MA.

The FY2015 assessment, in accord with the Bond Agreements, was incurred only on those owners of unimproved land as of January 1, 2014. The Total Estimated Special Assessment was \$450,000. There was a 99.8% collection rate for the first quarter of 2015.

The first quarter debt service payment of \$486,142.23 due August 1, 2014 was an interest only payment per the debt indenture. The funds to pay this assessment were comprised of tax revenues and the special assessment. One hundred percent of the first quarter 2015 special assessment was collected by August 20,

2014. LNR did not make its payment until August 6, 2014. This does not augur well for the second payment due on February 1, 2015.

This liability will continue until FY2040.

#### New Legislation and Impact on Land Assessment Bond (2010A)

The new legislation requires the Towns to collect all tax revenues and the special assessment for the funding of this bond commencing January 1, 2015. The starting date is unclear as certain milestones must be met in order for this obligation to change. If the Towns are obligated to collect the tax revenue and the special assessment commencing January 1, 2015, within 30 days from the close of each quarter the Towns are required to remit the collected funds to the SSTITDC for payment of this bond. The practical effects of this language are yet to be determined but may pose an issue, over time, with respect to the timely debt service payment of said bond.

#### Parkway Bond

The SSTITDC, utilizing a quasi-grant from the Commonwealth of Massachusetts, began construction on the East West Parkway in 2010. Below is presented a synopsis of the key terms of the Amended and Restated Memorandum of Agreement for the Implementation of Transportation Improvements for the Redevelopment of the South Weymouth Naval Air Station (the "Implementation MOA"), dated March 4, 2010, by and between the Massachusetts Department of Transportation ("MassDOT") and South Shore Tri-Town Development Corporation ("SSTITDC"). In brief, the SSTITDC is required to demonstrate to the Commonwealth that sufficient New State Revenues have been generated on site so as make the Parkway Bond debt service revenue neutral. If a difference exists between the annual debt service payment and the calculation for New State Revenues, the SSTITDC has guaranteed payment of the difference (deficiency payment).

#### Detailed Discussion on the East West Parkway:

As there were no changes in the MOA for first 51 days of FY2015, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTITDC for the period ending June 30, 2014 for a detailed discussion of the MOA.

#### Parkway Deficiency Payments

Generally, the annual MA General Obligation for the Parkway debt service payment is approximately \$1.9 million. This amount forms the baseline in the calculation for new state revenues. The difference between the debt service payment and the annual calculation for new state revenues generates any parkway deficiency. All parkway deficiencies must be certified by the MA DOR. The first calculation was for Fiscal Year 2012.

For Fiscal Year 2012, a deficiency was certified by MA DOR. Based upon FY11 construction values, new state revenue yielded \$339,749 with a deficiency of \$756,978 to be paid by June 30, 2013 of this amount \$466,927 has been paid with the remaining to be drawn from the parkway reserve held by the Commonwealth of MA (see MD&A).

For Fiscal Year 2013, a deficiency was certified by MA DOR. Based upon FY12 construction values of \$59,254,086, new state revenue yielded \$1,642,530 with a deficiency of \$232,970 to be paid by June 30, 2014.

For Fiscal Year 2014, a deficiency was certified by MA DOR. Based upon FY13 construction values of \$9,379,636, new state revenue yielded \$497,197 with a deficiency of \$1,375,128 to be paid by June 30, 2015.

The Fiscal Year 2015 calculation based upon FY2014 construction values has not been performed as of August 20, 2014 but must be completed no later than September 15, 2014. As there was little construction at Southfield during FY2014, the same trend for a seven digit deficiency in new state revenues is anticipated for FY2015 and should be paid in FY2016.

However, despite being offered to make payments for each of these deficiencies, the Assistant Secretary of Administration and Finance asked the SSTITDC to 'hold' off sending the checks. As a result, the payments due in FY2013 and FY2014 are being held the SSTITDC. In addition, the SSTITDC is required to convey to the Commonwealth the total sum of \$500,000 as security for payment. As of the date of this writing, the funds held by the Commonwealth total \$290,093. This reserve is being requested to be applied to the FY11 deficiency payment raise during FY12 and due on June 30, 2013 (See MD&A).

#### Parkway Reserve

There were no changes in the status of the parkway reserve matter during the first 51 days of FY2015. As a result, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTITDC for the period ending June 30, 2014 for a detailed discussion of parkway reserve matter.

#### New Legislation and Impact on the Parkway Completion

The new legislation clearly states that any additional financing by the Commonwealth for the completion of the parkway or for the so-called east side improvements are subject to the Commonwealth's capital plan and its statutory debt limit. The practical effects of this language are yet to be determined.

#### New Legislation and Impact on Parkway Deficiency

Included in the new legislation, there is a provision contained in Section 34 that the Secretary of Administration and Finance in conjunction with the Secretary of Housing and Economic Development **may** negotiate an amendment to the Parkway Agreement whereby deficiencies for the years 2013 through 2018 may be deferred until the beginning of fiscal year 2019. Deficiencies for those years may be extended to additional fiscal years if it is determined that the deferral is fiscally responsible and serves the public interest. However, each year a Parkway Deficiency must be calculated in accord with the Memorandum of Agreement. The practical effects of this language especially as it relates to tax rate setting are yet to be determined.

#### Overall Issues

It is evident the Parkway Agreement poses substantial risks to the financial stability of the SSTTDC as the SSTTDC must focus on acquiring financing for the Parkway and finish what is essentially ¾ completed. With financing, the Parkway can be completed. The SSTTDC must then insure that off-site road improvement can also be achieved. The completion of the Parkway will be a significant factor in determining the future success of SSTTDC.

#### Other Sources of Revenue:

SSTTDC needs to be able to generate enough revenue to both remain operational and to finance necessary phasing requirements. As soon as its revenue begins to fall below certain estimates, its ability to continue financing essential capital projects will come into question. Since SSTTDC is a unique entity, its revenue stream centered on three main sources of revenue:

- a. Taxes,
- b. Entitlement fees (to a maximum of \$4M that is due to be reached during FY18),
- c. Building permits.

The first 51 days of 98.57 percent of SSTTDC's revenue was in the category of real estate and personal property taxes, special assessment for the 2010A Bond and interest for tax late charges.

#### New Legislation and Impact on Entitlement Fees

The proposed new legislation requires that the master contract (known as the DDA) between LNR and the SSTTDC be renegotiated. Included as a provision within the DDA, the master developer is required to pay an entitlement fee for each parcel of land sold by LNR up to a total of four million dollars.

Under this contractual agreement with LNR, LNR is required to make certain payments in accord with that agreement and its development schedule. The future of these payments is uncertain given the new legislation.

#### New Legislation and Impact on Inspectional Fees and Services

The new legislation requires that each of the three towns assume all typical municipal services as of January 1, 2015. However in another section of the new legislation it states: "each town's inspectional services department will be responsible for issuing and enforcing building permits and certificates of occupancy for construction activities occurring within the respective town's borders". It is clear that the revenue source for inspectional services including building permit fees will be eliminated. This will have a clear impact on sources of revenue for FY2015 after August 20, 2014.

#### FY2015 BUDGET

As the result of a meeting with the MA DOR Director of Accounts on June 6, 2014; the CEO and CFO presented to the Board of Directors a first quarter FY2015 budget. The Board of Directors adopted same. The following is a status report for that budget.

#### Revenue:

**Total revenues collected during the first 51 days of FY2015: \$1,060,645**

- i. Tax Revenues = \$819,388
- ii. Special Assessment Revenues = \$224,642
- iii. Inspectional fees = \$7543
- iv. Earnings on Investment = \$2,088
- v. Chapter 70 reimbursement = \$4,305
- vi. Miscellaneous Revenues = \$2,679

A portion of these revenues are to be credited to the second quarter FY2015.

Expenditures:

The expenditures for the first 51 days of FY2015 were \$898,841 with an approximate breakdown of those expenditures as follows:

- i. Debt Service = \$486,142
- ii. Payment to Plymouth County Retirement Board = \$97,010
- iii. General Liability Insurance = \$50,019
- iv. Legal = \$34,407
- v. Health Insurance Costs = \$12,485
- vi. MUNIS = \$9,505
- vii. Public Safety = \$13,879
- viii. Overlay for abatements = \$50,066
- viii. Balance for salaries and operating expenses = \$145,328.

Water & Sewer:

SSTTDC is currently operating under a temporary agreement with Weymouth to provide water and wastewater collection systems and may not provide potential commercial developers with the degree of comfort necessary for such a developer to invest in building at Southfield.

SSTTDC currently makes connection and mitigation payments to Weymouth.

New Legislation and Impact on Water and Sewer

The new legislation requires the DDA with the Master Developer to be renegotiated. Included as a provision within the DDA, the master developer is required to assume the obligation for a permanent water and sewer solution. The practical effects of this language are yet to be determined.

Respectfully submitted,

Kevin R. Donovan  
Chief Executive Officer

James A. Wilson  
Chief Financial Officer

***FINANCIAL SECTION***

## **Independent Auditors' Report**

To the Board of Directors  
South Shore Tri-Town Development Corporation  
South Weymouth, Massachusetts

## **Other Matters**

*Required Supplementary Information*

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

## *Management's Discussion and Analysis*

## *Management's Discussion and Analysis*

### *Overview of the Financial Statements*

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The government-wide financial statements provide both long-term and short-term information about the Corporation as a whole. The fund financial statements focus on the individual components of the Corporation, reporting its operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the Corporation's accountability. An additional part of the basic financial statements are the notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements:** The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private sector business.

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

The *statement of activities* presents information showing how the government'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 expenditures are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the Corporation that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Corporation include general administrative services, professional services and pre-development site design and review. The Corporation's business-type activities include the water and sewer utility activities.

**Fund financial statements:** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Corporation can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Corporation maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Developer Deposit Fund, Multimodal Access Project Fund, Mass Highway Fund, Infrastructure Acquisition Fund, and East/West Parkway Fund, all of which are considered to be major funds. The remaining governmental funds are aggregated and shown as nonmajor governmental funds. Individual fund data for each of these nonmajor governmental funds is available from the Corporation Accountant's office.

The basic governmental fund financial statements can be found in the accompanying pages of this report.

**Proprietary funds.** Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Corporation uses enterprise funds to account for its water and sewer activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations.

The basic proprietary fund financial statements can be found in the accompanying pages of this report.

**Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the corporation. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Corporation's programs. The accounting used for fiduciary funds is much like that used for propriety funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements described above.

### **General Government**

The SSTTDC was created in 1998. Its existence was terminated as of August 20, 2014 and was reconstituted as Southfield Redevelopment Authority.

### **Property Values**

Real Estate property values in the SSTTDC are submitted annually by the Board of Assessors to Massachusetts Department of Revenue for certification in accord with MA General Law Chapter 59. Once certified, the Board of Assessors is able to determine the tax rate for the SSTTDC. The FY2015 values have not been certified as of August 20, 2014.

For prior history of property values, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014 for a detailed discussion and analysis of the property values.

### **Tax Rate**

Tax rates are set in a manner consistent with all other cities and towns within the Commonwealth of Massachusetts. Tax rates for the SSTTDC, like all municipalities, are approved by the Massachusetts Department of Revenue based upon all revenues including tax receivables. The Board of Assessors is required to calculate on the Commonwealth's tax recapitulation (RECAP) form all anticipated income and all authorized expenditures for a given year. This calculation yields a tax rate.

Like property values, the FY2015 tax rate for the new entity has not been determined as the tax plan was rescinded as of August 20, 2014. For prior year's tax rates, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014.

#### **New Legislation and Impact on Tax Rates**

Included in the new legislation (Senate Bill 2347, is a provision contained in one section of the Bill that introduces the concept of a "Southfield tax rate" that is added onto the real estate tax rate for the town in which the property lies. In addition, the current tax plan is voided and a new tax plan must be negotiated with the State prior to the setting of an FY2015 real estate tax rate. The practical effects of this language are yet to be determined.

### **Tax Receivables**

As of August 20, 2014, estimated real estate tax bills were sent to property owners at Southfield, 100% of these charges were collected. Only 86 percent of the estimated personal property taxes were paid by August 20, 2014.

For prior year's tax rates, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014.

#### New Legislation and Impact on Tax Receivables

Included in the new legislation (Senate Bill 2347), is a provision contained in one section that introduces the concept that the Towns will be responsible for collecting and then transmitting a portion of the collected back to the SSTTDC. In addition, the legislation calls for the SSTTDC to remit to the Towns certain real estate taxes "collected but unexpended". The practical effects of this language are yet to be determined.

#### Abatements

For a detailed discussion of outstanding abatements, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014. There has been no change from that analysis as of August 20, 2014.

#### Outstanding Tax Receivables

????????????????????

### GOVERNMENTAL ACTIVITIES

#### Highlights

##### *Governmental Activities*

#### Net position

#### Revenues and Expenses

#### Revenues

Collected estimated tax revenues for Governmental Activities for FY15 increased due to the fact that construction had commenced in prior years and certificates of occupancy had been issued during 2014, therefore these properties had been added to the tax base calculation.

A parkway deficiency assessment was also charged to LNR during FY2014, the Master Developer, in the amount of \$375,686.35 under the terms of the Parkway Agreement (see below) for which LNR was a signatory. Under the terms of the agreement and as a result of a FY13 deficiency in 'new state revenues' calculation, the SSTTDC was able to recover some of that deficiency through the means of an assessment that is based upon the value of commercial property. As LNR was the sole owner of commercial property during FY13, it was the sole owner upon whom an assessment was made during FY14. LNR had failed to make that payment as of the date of this writing.

In addition, under the terms of the 2010A Bond issued by the SSTTDC, certain lands in FOST 1 and FOST 2 are assessed to help pay the debt service. The total of the FY2015 assessment to land owners was estimated to be \$450,000 and was 99.98% collected as reflected in the Special Assessment revenue line item. This is a declining assessment over time with the bond holder (SSTTDC) assuming more and more responsibility for payment through its tax revenue pledge.

Under the SSTTDC contractual agreement with LNR, LNR is required to make certain payments in accord with that agreement and its development schedule. Under the terms of the Agreement, the SSTTDC will receive fewer such annual payments over the life of the agreement. The payments from LNR are capped at four million dollars and are projected to run through FY2020. There were no such payments made during the first 51 days of FY2015. However, under the terms of the new enabling legislation, the terms of this agreement are required to be renegotiated. The future of these payments is uncertain given the new enabling legislation.

Despite the foregoing, during the first 51 days of FY2015 revenues were sufficient to cover operating expenses.

### **Expenses**

Operating expenses include depreciation, maintenance and repairs to capital assets and operating expenses associated with operations. The first quarter FY15 approved budget was set at \$1,506,419. Of that amount, \$50,066 was approved for the FY15 overlay for abatements account required under GL c. 59. In addition to the FY15 approved budget, \$24,542 was included as a carryover for FY14 general fund encumbrances most of which was reserved for payments under FY2014 contracts.

Personnel costs were approximately sixteen percent of the operating budget. More significant however was the fact that the CEO and CFO had contracts with certain buy-out provisions. Those contracts were terminated as of August 1, 2014. The funding for those buyouts were not included in the FY2015 operating budget but were provided for with special revenues voted by the Board of Directors in June 2014.

### **Depreciation**

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets in accordance with guidelines established by the Commonwealth. Depreciation expense increased compared to Fiscal Year 2013 due to certain depreciable assets being moved from 'in progress' to 'in service' during FY2014. All of the assets were as a result of roadway improvements both on and off-site. In addition, these assets reflect the purchase in August of 2010 certain infrastructure improvements from LNR, the master Developer. Minimal Depreciation expense was 'booked' as of August 20, 2014.

### **General Fund Budgetary Comparison**

In FY13, the Board of Directors established a program based budget. That approach was continued during the first 51 days of FY2015.

### **Budgetary Revenues**

Under the license, permit & fee line item, revenues were significantly lower than those projected due to the fact that there no major construction projects initiated during the first 51 days of FY2015. The same is true for entitlement fees. Included in assessments are the special assessment for payment of the 2010A debt service and the so-called parkway deficiency payment. While all the revenues were collected for the debt service, LNR continued to fail to pay its FY2014 parkway deficiency assessment. Tax revenues were higher as a result of the increase in the tax base and miscellaneous revenues

### **Budgetary Expenditures**

The chart reveals a 1/4 budget of \$1,530,961 that includes transfers and FY14 encumbrances rolled into FY2015. Unpaid FY2014 bills required additional funding in the amount of \$22,200. The additional funding was re-appropriated from various other line items within the budget. All expenditures, including encumbrances, came in under budget.

Overall, the expenditures for first 51 days of fiscal year 2015 were directly related to general government administrative activities. Included in this budget for the second year was an appropriation for public school and public safety.

Debt service was paid for by a special assessment on FOST 1 and 2 in accord with the 2010A Bond Issuance authorized as approved by the Board of Directors and pledged tax revenues (25% of the tax revenue generated from FOST 1 and 2).

For the first quarter of FY2015, the parkway deficiency line item has not been included as the Parkway MOA is required to be renegotiated during FY2015.

### **General Fund Free Cash and Water/Sewer Retained Earnings**

Free Cash is similar to the unassigned fund balance at the end of each fiscal year and represents those funds which were not expended by the SSTTDC. The SSTTDC annually petitions the Massachusetts Department of Revenue to certify that the SSTTDC has achieved a surplus and for permission to expend those funds during the succeeding fiscal year. The FY2015 free cash and retained earnings have not been certified by MA DOR.

For prior year’s analysis, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014.

**STABILIZATION ACCOUNTS**

Two Stabilization Accounts have been established by the Board of Directors. Both were created in accord with General Laws chapter 40 section 5B. The total of these two accounts at the close of business on August 20, 2014 was \$615,175. Each of these two accounts was created two different purposes. What follow is management’s discussion of each account.

**General Stabilization Account**

As of the close of fiscal year 2014 there was a balance of \$324,153 in that fund. Accrued interest was added to the fund. The Stabilization Account is held in a separate fund in accord with the statutes. Of the total SOY balance, the Board of Directors reserved \$447,118 for FY2014 operational expenses and more specifically to fund the FY2014 payment for the FY2013 2010A Bond Payment due on August 1, 2014. In addition, an expenditure of \$22,500 was made during FY2014 to fund the repair of an on-site weir. Finally, the Board of Directors voted to expend \$322,999.46 to meet the operational expenses for the first quarter of 2015. As of August 20, 2014, the transfer to the General Fund has not been made. However, the addition of \$183 in interest was added in July, 2014 bringing the fund balance to \$324,336.

Balance forward	\$ -	\$ 77,842	\$ 78,206	\$ 550,810	\$ 790,029	\$ 324,153
Transfers In	\$ 177,842		\$ 472,000	\$ 486,313		
Transfers Out	\$ (100,000)			\$ (251,165)	\$ (469,618)	
Interest Income		\$ 364	\$ 604	\$ 4,072	\$ 3,741	\$ 183
EOY Balance	\$ 77,842.00	\$ 78,206	\$ 550,810	\$ 790,029	\$ 324,153	\$ 324,336

**Other Post-Employment Benefits (OPEB)**

GASB Statement 45 requires state and local governments to begin reporting OPEB costs and obligations. This statement requires that the annual cost and liability associated with OPEB be computed and brought onto the governmental entity’s books and records. The Board of Directors understood its responsibility with respect this pronouncement.

During fiscal year 2014, the SSTTDC undertook a study that complies with this reporting requirement. As the SSTTDC has fewer than 100 participants covered under the plan, it is eligible for the alternative measurement method of reporting.

The report includes the calculation for the Actuarial Accrued Liability (AAL) which is defined as the total projected liability for OPEB covered under the plan. The AAL calculation uses the data on active employees, employees who have left employment but who are eligible for retiree healthcare, current retirees and their beneficiaries and spouses who are eligible for the retiree healthcare benefit provided by SSTTDC.

Utilizing this approved methodology and an independent firm to perform the calculations, it was determined that the liability as of June 30, 2014 was \$288,727. The SSTTDC Board of Directors established a separate stabilization fund (8373) in 2013 for the specific purpose of holding such funds. The Board of Directors deposited \$\$37,562 into this fund during FY2014. Therefore, the SSTTDC has met its obligations under GASB-45.

The change in fund balance to \$290,839 as of August 20, 2014 represents \$185.27 in interest added to the fund. The FY2015 obligation has not been calculated as of August 20, 2014.

<b>OPEB Stabilization Account</b>			
	<b>FY2013</b>	<b>FY2014</b>	<b>FY2015</b>
Balance forward	\$ -	\$ 251,175	\$ 290,654
Transfers In	\$ 251,165	\$ 37,562	
Transfers Out	\$ -		
Interest Income	\$ 10	\$ 1,917	\$ 185
EOY Balance	\$ 251,175	\$ 290,654	\$ 290,839

**BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS**

Water and Sewer Enterprise Fund Budgetary Overview

The SSTTDC supplies its customers with water and sewer disposal through the Town of Weymouth. In March, 2008, the SSTTDC through its Board of Directors entered in a Temporary Agreement with the Town of Weymouth that secures water and sewer through Phase One of the re-development of the former Naval Air Station as projected under the current Reuse Plan. In accord with that Agreement, the SSTTDC was required to pay certain conservation and mitigation payments to the Town of Weymouth. The Phase 1A payments were paid by LNR in May of 2012 at the time the Corcoran Project was beginning its permitting requirements under the approved Development Plan. This agreement however was only for Phase 1 construction. Under the new Enabling Legislation, this agreement remains in place through July 1, 2016.

The amount of the Phase 1A mitigation payments are determined by the actual connections as evidenced by building permits. The first building permit application triggered the requirement that conservation fees be

paid. With the granting of each building permit, the SSTITDC is required to make a sewer connection fee. Up to this point, the sewer connection fee is included in the calculation for building permit fee. Under the new Enabling Act, the building fees are calculated and collected by the individual towns. Who is required to calculate and collect the sewer connection fee is unclear.

The SSTITDC had adopted MGL c.44 section 53F ½ for water and sewer activities. Revenues produced by each activity are dedicated solely to offset operating expenditures. Accordingly, any excess balances at year-end must remain within the respective funds.

By the end of FY12, the SSTITDC had authorized the use of a single fund for the water and sewer enterprise systems. The use of a single fund commenced in July, 2012 (FY2013). This change was prompted by the Bureau of Accounts making the suggestion in January, 2012.

The FY14 budget did include allocated costs for salaries and other expenses. Over time, additional allocated costs will be assumed by the Enterprise Fund.

### **Capital Assets**

For a detailed discussion of capital assets, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTITDC for the period ending June 30, 2014. There has been no change from that analysis as of August 20, 2014.

### **Water and Sewer Rate Structure**

For the first quarter of FY2015, the Board of Directors affirmed a rate system based upon the rates charged the SSTITDC by the Town of Weymouth. This rate structure passed the costs of water and sewer charges from Weymouth to the rate payer and accommodated a reserve line item and line items for allocated costs. The Board affirmed the FY15 rate structure for the enterprise fund that allows for administrative fees to be included in the charges and passed onto the rate payers.

The SSTITDC is viewed as a single rate payer and, as a result, is charged by the Town of Weymouth the so-called Second step rates (higher user). In addition to the Second Step rates, the SSTITDC pays a premium of five percent. There are quarterly credits applied retrospectively to the Weymouth's bills to reflect those credits provided to condominiums owners in the Town of Weymouth.

### ***Business-Type Activities***

### **Revenue and Expenses**

There was no anticipated to be no significant increase in residents with the jurisdictional boundaries during FY15, as a result, the water and sewer charges were based upon the FY2014 budget.

The Water and Sewer Enterprise Fund is charged with the responsibility of maintaining and improving the SSTTDC's water distribution and sewer collection system which terminates at the MRWA facilities in Deer Island.

Like the General Fund, the Board of Directors approved only a first quarter 2015 budget.

There is an obligation to pay the Town of Weymouth for FY14 connection fees to be paid in FY15 of \$78,022. The sewer connection fees are mandated in the March 2008 agreement with the Town of Weymouth.

The first quarter of FY2015 was set at \$152,750. Collected revenue for the first 51 days was \$57,629 with expenses totaling \$2,949 associated with a part time employee and for monthly water testing.

FY2014 encumbrances into FY2015 were \$633 for professional services. This encumbrance was paid during the first 51 days of FY2015.

## **DEBT**

### **Debt Administration**

For a detailed discussion of Debt Administration, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014. There has been no change from that analysis as of August 20, 2014.

### **Bond Rating**

None.

## **INFRASTRUCTURE BOND**

South Shore Tri-Town Development Corporation issued the Series 2010A Infrastructure Development Revenue Bonds in the amount of \$12,550,000 on August 9, 2010 (the "Bonds").

For detailed discussion of the Infrastructure Bond, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014. There has been no change in the analysis of this Bond.

It is estimated that the FY2015 Special Assessment \$450,000 to be collected over two quarters. There was a 99.8% collection rate for the August 1 payment date.

## **CONTINGENT LIABILITY**

## **Parkway Bond**

The SSTTDC, utilizing a quasi-grant from the Commonwealth of Massachusetts, began construction on the East/ West Parkway. The following is a brief synopsis of the key terms of the Amended and Restated Memorandum of Agreement for the Implementation of Transportation Improvements for the Redevelopment of the South Weymouth Naval Air Station (the "Implementation MOA"), dated as of March 4, 2010, by and between the Massachusetts Department of Transportation ("MassDOT") and SSTTDC.

For detailed discussion of the Parkway Bond, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014. There has been no change in the analysis of this Bond.

The debt service payment for FY15 is just less than \$1.9 million. The Massachusetts DOR (DOR) has not certified a deficiency for fiscal year 2014. It is anticipated that the DOR will require that said amount be provided for during FY2015 as it has done in the past.

Notwithstanding the foregoing, the following checks were written but not turned over, at the request of the Undersecretary of Administration and Finance, to the Commonwealth to cover all Parkway Deficiency contingences during FY2014. These checks have not been turned over to the Commonwealth as of August 20, 2004.

On a cash basis, they have been recorded as outstanding checks, in this financial statement they have been added back into cash and are shown as a liability:

- a. \$290,093 in the event the Secretary of Administration and Finance requires payment of additional sums for the reserve
- b. \$1,375,128 for the FY2013 parkway deficiency payment
- c. \$232,970 for the FY2012 parkway deficiency payment. It should be noted that in the event that this payment is not required by the Secretary of Administration and Finance, the total amount is to be refunded to LNR in accord with a written agreement with the SSTTDC dated April 26, 2013 as ALL of these funds were paid by LNR for the sole purpose of paying their liability under the Parkway Agreement.

## **Retirement Board**

For detailed discussion of the Retirement Board, please see the Basic Financial Statement with transmittal letter and management and discussion sections for the SSTTDC for the period ending June 30, 2014. There has been no change in the analysis of the Retirement Board. The SSTTDC did pay its entire FY2015 assessment in July, 2014.

## **Claims**

As stated above, LNR is required to make certain payments to the SSTTDC for its share of any parkway deficiency. This is a required payment under the Amended and Restated memorandum of Agreement on Financing for the SSTTDC Parkway dated March 2010. LNR failed to make its FY2014 payment (as disclosed above). Based upon this fact, the SSTTDC voted to terminate LNR as the Master Developer. LNR has responded that it did not accept that there were grounds for termination under Development and Disposition Agreement executed by LNR and the SSTTDC. LNR requested that the SSTTDC rescind its termination. No further action has been taken by either party.

LNR has also failed to make certain water and sewer payments for usage. The SSTTDC has informed LNR of its intent to lien all property. The total outstanding liability for these invoices as of June 30, 2014 is \$132,956.14 and represents approximately 14% of the Water and Sewer Enterprise Fund budget.



**Statement of Net position**

**Statement of Activities**

**Balance Sheet – Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities**

**Statement of Net position – Proprietary Fund**

**Statement of Revenues, Expenses and Changes in Fund Net position – Proprietary Fund**

**Statement of Cash Flows – Proprietary Fund**

**Statement of Fiduciary Net position**



