

**South Shore Tri-Town Development Corporation**

**Basic Financial Statements**

**Fiscal Year Ended June 30, 2008**

# TABLE OF CONTENTS

TRANSMITTAL LETTER .....	1
INDEPENDENT AUDITORS' REPORT .....	6
MANAGEMENT'S DISCUSSION AND ANALYSIS .....	8
STATEMENT OF NET ASSETS .....	16
STATEMENT OF ACTIVITIES .....	17
BALANCE SHEET – GOVERNMENTAL FUNDS .....	19
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS .....	20
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET BASIS – GOVERNMENTAL FUNDS .....	21
STATEMENT OF NET ASSETS – PROPRIETARY FUND .....	23
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS – PROPRIETARY FUND .....	24
STATEMENT OF CASH FLOWS – PROPRIETARY FUND .....	25
NOTES TO BASIC FINANCIAL STATEMENTS .....	26
REQUIRED SUPPLEMENTARY INFORMATION .....	35

# South Shore Tri Town Development Corporation

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## TRANSMITTAL LETTER

October 3, 2008

Board of Directors  
South Shore Tri-Town Development Corporation  
South Weymouth, Massachusetts 02190

This letter transmits the South Shore Tri-Town Development Corporation's financial statements for fiscal year 2008 (July 1, 2007 through June 30, 2008) as mandated by Chapter 301 of the Acts of 1998. This Act requires that the Corporation issue annually a report on its financial position and activity, and that this report be audited annually. These statements, which contain a management's discussion and analysis, basic financial statements and notes to the financial statements, present the net assets or financial position and the changes in net assets or the results of operations of the Corporation on the accrual, modified accrual and budgetary bases of accounting, as described herein. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the Corporation's net assets and changes in net assets and the financial position and results of operations of the various funds of the Corporation. All disclosures necessary to enable the reader to gain an understanding of the Corporation's activities have been included.

The Corporation operates under the direction of the Board of Directors. Policy-making and legislative authority are vested in the Board of Directors. The Board of Directors is responsible, among other things, for adopting the budget and hiring staff. The Board of Directors hired an Executive Director who is responsible for carrying out the policies of the Board of Directors and for overseeing the day-to-day operations of the Corporation. The Board of Directors representing the Corporation's three communities of Abington, Rockland and Weymouth are appointed for five-year terms (staggered at initial appointment).

## Financial Information

The financial statements present:

- Two government-wide financial statements on the accrual basis of accounting
- One Proprietary Fund on the accrual basis of accounting
- General Fund and Property Development Funds balance sheet and statement of revenues, expenditures and changes in fund balance on the modified accrual basis of accounting
- General Fund budget comparative statements on the budgetary basis of accounting

The management's discussion and analysis discusses these statements and the various bases of accounting, presents the net assets and the changes in net assets and highlights the Corporation's tenth year of operation in terms that the average reader can understand. The notes provide further disclosures. These statements are consistent with the Governmental Accounting Standards Board's (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

Management of the Corporation is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Corporation are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and state financial assistance, the Corporation is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and the staff of the Corporation.

In addition, the Corporation maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Directors. All Corporation activities are included in the annual appropriated budget. The Corporation also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbered amounts lapse at the end of each year. However, outstanding encumbrances generally are re-appropriated as part of the following year's budget.

## **Cash and Risk Management**

Cash temporarily idle during the year was invested in a certificate of deposit and a savings account. The Corporation is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; injuries to employees, and natural disasters. The Corporation carries various types of commercial insurance to address these exposures.

## **Other Information**

### *Independent Audit*

The Corporation's enabling legislation requires an annual audit by independent certified public accountants and an audit at least once every two fiscal years by the Office of the State Auditor. The independent Certified Public Accounting firm of Powers & Sullivan has audited the Corporation's basic financial statements.

## **Project Status**

The South Shore Tri-Town Development Corporation is the local redevelopment authority established by the Commonwealth of Massachusetts to promote the expeditious acquisition and redevelopment of the former South Weymouth Naval Air Station (the Base) located approximately 18 miles southeast of Boston within the communities of Abington, Rockland and Weymouth (the Host Communities). The primary purpose of the Corporation is to secure the redevelopment of the Base to the greatest benefit of the Host Communities while addressing the economic, social, and environmental needs of the region.

In 2005, the Host Communities approved a Reuse Plan and implemented zoning by-laws for the redevelopment of the Base into *SouthField*, a project utilizing Smart Growth/sustainable development principles to link transit-oriented improvements with a mix of commercial (2M sf), residential (2,855 units) and open space development. Since that time, the Corporation has worked with its Master Developer, LNR South Shore, LLC (LNR), to further define, plan, finance and implement the *SouthField* development. LNR is a subsidiary of LNR Property Corporation, a national real estate developer with

particular expertise in the redevelopment of former military installations. More information about *SouthField* can be found at [www.ssttdc.com](http://www.ssttdc.com) and [www.SouthField.com](http://www.SouthField.com).

Over the past Fiscal Year great progress has been made. For example, agreements and approvals were put in place necessary to allow, fund and manage the *SouthField* project:

- A Final Environmental Impact Report Certificate was issued by the Massachusetts Secretary of Environmental Affairs providing permitting approval of the *SouthField* project in compliance with the requirements of the Massachusetts Environmental Policy Act.
- The Corporation entered into Memorandum of Agreements with the Commonwealth of Massachusetts (1) to obtain an obligation of \$42.5M in state financing for the East-West Parkway project and (2) for Massachusetts Highway Department (MHD) review and oversight of design and construction of the East-West Parkway, as well as timely implementation and coordination of MHD's Route 18 widening project.
- An Amended and Restated Disposition and Development Agreement (DDA) was negotiated and executed between the Corporation and LNR to establish the roles, responsibilities and obligations of each party throughout the phased development of *SouthField*.
- The Corporation and the United States Navy reached agreement on Acquisition Terms and Conditions for the remaining Economic Development Conveyance parcels of the Base. It is expected that actual transfer of title and/or leasehold interest to SSTTDC will occur by December 2008.
- In anticipation of Bond Issuance in 2008, the Corporation engaged a Bond Underwriter, Banc of America Securities; a Bond Consultant, MuniCap, Inc.; and Bond Counsel, Edwards, Angell Palmer & Dodge.
- The Board of Directors set the Regulatory Framework (adopting General Municipal Regulations, Health Regulations and an Affordable and Workforce Housing Plan to support the Zoning and Land Use By-Laws) to steer the development and governance of *SouthField*.
- The Corporation approved proposed amendments to its enabling act, which were submitted to the Massachusetts Legislature in December 2007. In August 2008, Chapter 303 of the Acts of 2008 amending Chapter 301 of the Acts of 1998 was enacted and now stands as the Corporation's enabling authority. The amended legislation provides the Corporation with needed authority to fully implement and manage the *SouthField* development. With this new authority, the Corporation is now a "local governmental unit" with full taxing and other municipal powers.

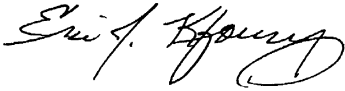
In addition, physical improvements continued to be made in the Fiscal Year 2008. Specifically, the following highlights have been achieved:

- Entry improvements from Route 18 to 223 Shea Memorial Drive were completed.
- Phase 1A site work (demolition, peat removal, earthwork, etc.); backbone infrastructure including roads (Memorial Grove Avenue and Park View Street) and utility lines (water, sewer, stormwater, electric, etc.); and landscaping (grading and plantings) have been completed.
- Roadway and intersection improvements by MHD of Route 18 from Route 3 in Weymouth into Abington have been and continue to be achieved.
- The Corporation issued a Request for Qualifications (RFQ) for Design/Build teams in order to select three qualified bidders for the design and construction of the East/West Parkway.

- LNR's *SouthField* Marketing Center was constructed and opened to the public in April 2008.

Through hard work by many dedicated individuals, the vision that will be *SouthField* continues to move closer to reality.

Respectfully submitted,



Eric J. Kfoury  
On behalf of SSTDC

***BASIC FINANCIAL STATEMENTS***



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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Shore Tri-Town Development Corporation (Corporation), as of and for the fiscal year ended June 30, 2008, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

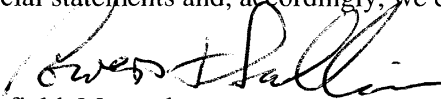
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Corporation, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2008, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 read in conjunction with this report in considering the results of our audit.



The Management's Discussion and Analysis, located on the following pages, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The transmittal letter has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Wakefield, Massachusetts

October 3, 2008

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## ABOUT THE BASE, THE CORPORATION AND PHASED DEVELOPMENT

The former South Weymouth Naval Air Station (the Base) comprises approximately 1,400 acres located in the towns of Abington, Rockland and Weymouth (the Host Communities). It was deemed surplus under the U. S. Department of Defense's 1995 Base Realignment and Closure Act (BRAC), through which process the federal government mandates that redeveloped military installations should replace the economic contribution that they made to the region before closing. In response, the Host Communities drew on a locally-initiated effort to adopt a plan for reuse of the Base that featured economic growth and job creation in balance with environmental protection and recreational enhancement. In 1998 a reuse plan was adopted by the Host Communities allowing them to retain local control over the future redevelopment of the Base and enhance the opportunity for creating economic development and new tax revenues. A part of the strategy to implement the 1998 reuse plan was the formation by the Commonwealth of the South Shore Tri-Town Development Corporation (Corporation) to act as the sole entity responsible for pursuing the acquisition and redevelopment of the Base.

Beginning in 2000, redevelopment plans for the Base were refocused to center on Smart Growth/sustainable development principles (i.e., compact, mixed-use, transit-oriented and pedestrian-friendly development) that were seen as good for the economy, the environment and the community. To develop and ultimately implement a new master reuse plan, the Corporation selected LNR Property Corporation as Master Developer in October 2002. The company was chosen for its military base redevelopment experience, strong finances, and expertise in the implementation of "Smart Growth" principles.

The refocused plan emerged from a two-year planning process involving the Host Communities, local, regional, state and federal planning experts, agencies, elected officials, municipal leaders, the general public and others. What came out of this process is the *SouthField* development program which was formally approved by the Host Communities in summer 2005. One of the strengths of *SouthField* is that it is designed to be built in phases over a period of approximately twelve years. This phased approach provides a number of benefits: the Host Communities will have sufficient opportunity to adjust to and absorb the impacts of the Base re-use; the infrastructure for roads, water supply and wastewater treatment will be able to keep pace with growing demands; and re-use of the Base will be responsive to changing market conditions in both the residential and commercial sectors, thereby enabling the creation of a successful community and asset for the Towns and providing greater assurance of success.

During the formation of the *SouthField* plan, portions of the Base were conveyed to the Corporation in 2003. The Corporation transferred 324 acres to LNR in 2006 to begin construction of Phase 1A infrastructure. Today that infrastructure is complete and construction of both residential and commercial vertical development is able to begin. The *SouthField* project offers job opportunities, active and passive recreational activities, housing (including senior, affordable, and workforce housing), and ideal sites for new businesses. It is contributing to the regional economy and toward a generally improved quality of life for generations to come.

Our discussion and analysis of the financial performance provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2008.

Fiscal Year 2008 is the tenth year of the Corporation's operation. Comparisons of the past years of operation and emphasis on changes in net assets are presented. Please read this discussion in conjunction with the Transmittal Letter and the Corporation's Financial Statements as it is an integral part of this report.

