

Massachusetts Technology Park Corporation

(A Component Unit of the
Commonwealth of Massachusetts)

Financial Statements and
Required Supplementary Information

Year Ended June 30, 2018

Massachusetts Technology Park Corporation
(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Required Supplementary Information
Year Ended June 30, 2018

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RSM US LLP

Independent Auditor's Report

To the Board of Directors of
Massachusetts Technology Park Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Massachusetts Technology Park Corporation (the "Organization"), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Organization as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 8 to the financial statements, the July 1, 2017 fund balance for the general fund was restated for the correction of errors related to long-term liabilities that should not have been included in the general fund and the classification between fund balance categories. Further, the July 1, 2017 net position for governmental activities was restated for the correction of an error related to classification between net position categories. Our opinions are not modified with respect to these matters.

As discussed in Note 10 to the financial statements, a final award was made relating to ongoing litigation matters that required the Organization to make an \$8.2 million payment. Management's evaluation of the payment and management's plans to mitigate this matter are also described in Note 10. Our opinions are not modified with respect to this matter.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

RSM US LLP

Boston, Massachusetts
December 21, 2018

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2018 and 2017

This section of the Massachusetts Technology Park Corporation's annual financial report presents management's discussion and analysis of the financial performance during the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the financial statements, which follow this section.

Agency Overview

The Massachusetts Technology Park Corporation does business as the Massachusetts Technology Collaborative ("Mass Tech Collaborative" or "MassTech"). MassTech is an innovative public agency that works to accelerate technology adoption and use, enhance economic growth in the Massachusetts technology sector, and support research collaborations among industry, academia, and government.

MassTech is advancing economic development in key areas such as digital health technology, information technology, broadband deployment, advanced manufacturing, and other emerging sectors such as cybersecurity, robotics and the Internet of Things (IoT). Over its 36 year history, MassTech has managed numerous complex projects, overseeing more than \$603 million in public funding by providing grants, loans and other financial assistance to thousands of projects across the Commonwealth of Massachusetts (the "Commonwealth"). Through its three major divisions - the Innovation Institute, the Massachusetts eHealth Institute ("MeHI"), and the Massachusetts Broadband Institute ("MBI"), MassTech is stimulating economic activity throughout the Commonwealth. MassTech brings together leaders from industry, government, and academia to advance technology-based solutions that strengthen regional economies, improve the healthcare system, expand high-speed internet access, and stimulate cluster growth.

The Innovation Institute at MassTech

The Innovation Institute at MassTech is chartered to support the economic conditions for growth for the Commonwealth's technology and innovation-based economy. The Innovation Institute works closely with key stakeholders in academia, industry, public and nonprofit sectors to strengthen capacities in research, technology and business development, talent and capital which lead to new business formation and job growth in the state's innovation economy. These efforts help create, attract, and grow companies in emerging and established technology sub-sectors such as robotics, internet of things, advanced manufacturing, and cybersecurity.

The Innovation Institute engages in grant activities; manages projects and provides direct services for civic, industry and nonprofit organizations; and analyzes the Massachusetts innovation economy. The Institute also:

- Supports rigorous, collaborative, interdisciplinary research and development partnerships at Massachusetts universities;
- Enhances the ability of the Commonwealth's academic research centers to compete for millions of dollars in federal research awards;
- Secures the economic benefits of downstream production and employment for the Commonwealth as new research and technologies are commercialized in the marketplace;
- Partners with and invests in novel talent development initiatives such as internship support, K-12 exploratory computer science and technology programs/curriculum; targeted higher education and adult education technology training programs;
- Supports the growth of entrepreneurs in Massachusetts through business accelerator and mentorship programs as well as its direct support for the novel Global Entrepreneurs in Resident Program (GEIR), a program targeted toward qualifying international students for H-1B visas in Massachusetts. The Innovation Institute sponsors a GEIR Communities of Best Practice stakeholder group;

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Innovation Institute at MassTech....Continued

- Strengthens technology and business development by aligning technology capacities at our research institutions with the needs of industry;
- Provides business assistance services targeted toward firms in the technology sector. The Innovation Institute provides referrals to state resources as well as helps startup entrepreneurs and tech firms leverage other resources in the tech ecosystem;
- Supports regional innovation economies and cluster growth through its regional priority grant program. Through this program the Innovation Institute supports high value innovation based economic development activities.

Some examples of the Innovation Institute's cluster development activities include:

- Support of targeted cluster growth opportunities in the Tech Sector;
- Facilitation of the Massachusetts Tech Hub Collaborative, a focused group of industry leaders that shapes policy and growth strategies for the digital technology sector;
- Analysis of opportunities for growth in technology clusters such as robotics, IoT, FinTECH, and autonomous vehicles;
- Convening key stakeholders in promising clusters to develop consensus around targeted action agendas.

The Innovation Institute began efforts in the cybersecurity arena and convened the first-ever Massachusetts Cybersecurity Forum focused on expanding cybersecurity leadership, business growth, talent and workforce, and advancing technology in the global cybersecurity arena. At the event, Governor Charlie Baker announced the creation of the Cybersecurity Growth and Development Center at the Massachusetts Technology Collaborative ("MassCyberCenter"). The MassCyberCenter is working to strengthen ties and create a center of gravity around the evolving cybersecurity ecosystem. The MassCyberCenter is also working with key stakeholders on the development of a comprehensive cybersecurity plan.

As a mechanism to drive growth in industry clusters the Innovation Institute administers a \$50 million Scientific and Technology Research and Development Matching Grant Fund which was created by the Massachusetts Legislature. In August 2016, Governor Baker signed an economic development bill, "An Act Relative to Job Creation and Workforce Development", which provides \$50 million in additional authorization for the Innovation Institute's **Scientific and Technology Research and Development Matching Grant Fund**. This program provides matching capital funds for scientific or technology research and development projects sponsored by the University of Massachusetts, research universities, non-profit entities, or non-profit research institutions in the Commonwealth. To date, six awards have been made under this fund for a total of \$25 million of capital investment to fund and help develop large-scale, long-term collaborative research projects sponsored by Massachusetts-based research entities. The Innovation Institute strengthens research capacity in the Commonwealth through these research investments and by convening the Directors of its eleven research centers to share best practices and to promote partnerships with key industry partners.

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Innovation Institute at MassTech....Continued

As briefly referenced above the Innovation Institute also continues to manage two initiatives focused on growing startups and connecting talented students: the MassTech Intern Partnership and the Massachusetts Innovation Mentoring Initiative. The Intern Partnership pays matching stipends to small- and medium-sized technology companies in Massachusetts to support the hiring of two- and four-year college students as interns. MassTech's Entrepreneur Mentoring effort is designed to support regional entrepreneur mentoring activities in underserved regions of the state through support for organizations that provide seasoned mentors to emerging startups.

The Baker/Polito Administration established the Massachusetts Manufacturing Innovation Initiative (M2I2) in fiscal year 2016 as a key pillar of their innovation growth strategy for Massachusetts and established oversight of this initiative at MassTech. This initiative represents a substantial commitment to develop manufacturing infrastructure within the state's academic, research and manufacturing industry, and is a direct response to the National Network for Manufacturing Institutes (NNMI), a rolling series of federally sponsored advanced manufacturing competitions. The M2I2 is a state-sponsored collaboration of five manufacturing innovation institutes in Massachusetts that are affiliated with the NNMI and leverages the leading Massachusetts research universities to strengthen the Commonwealth's research-to-manufacturing infrastructure. It boosts economic development by supporting job creation and growth in existing and emerging industry clusters across Massachusetts. In fiscal year 2018 alone the M2I2 announced grants involving 3 academic, 9 industry and 1 national lab entity, projected to lead to 100-200 new, high-skill advanced manufacturing jobs.

Massachusetts eHealth Institute

Through MeHI, MassTech is working to accelerate the growth and adoption of technologies that save lives and reduce costs in healthcare. MeHI was created through the passage of Chapter 305 of the Acts of 2008, tasked to improve healthcare quality and increase efficiency through the increased adoption of innovative technologies. MeHI connects policymakers, healthcare experts, physicians, and business leaders, helping to break down the barriers to widespread integration of these advanced technologies.

Chapter 224 of the Acts of 2012 included provisions which enhanced MeHI's charge to expand its focus on key priorities including the statewide implementation of electronic health records ("EHRs") in all provider settings, helping providers connect these EHRs to the Commonwealth's health information exchange, the Mass HIway, identify and promoting technologies with the potential to improve the quality and reduce the cost of healthcare; helping providers continue to evolve their use of EHRs to comply with future meaningful use stages; and promoting the understanding of the benefits of Health Information Technology ("Health IT") to providers, patients, and the general public. This law also created a requirement that providers implement and use electronic health record technology in order to continue to practice in the Commonwealth. MeHI helps providers comply with this requirement through educational programs, technical support, and grants to support implementation of EHRs in healthcare delivery settings. To support this, the Massachusetts Legislature provided MeHI with funding of \$28.5 million over a four-year period, which ended in fiscal year 2017.

In January 2016, Governor Charlie Baker announced the establishment of a Massachusetts Digital Health Initiative designed to position Massachusetts as the leading global ecosystem for digital health innovation, and announced that MeHI would serve as the state's implementation agency for the Initiative. Digital Health is among the fastest growing industry sectors in the country and Massachusetts is positioned at the forefront of this growth, combining its strengths in both healthcare and technology to drive digital health innovation.

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Massachusetts eHealth Institute...continued

Massachusetts is already home to more than 350 digital health companies and aims to increase the growth of these firms. Later in 2016, MeHI's mission was expanded through enacted state economic development legislation which charged MeHI with supporting the growth of a digital health industry sector within the Commonwealth.

During 2018, MeHI's primary technology adoption efforts were focus in four existing programs and a new services program:

The **Digital Health Marketplace Program** supports both digital health entrepreneurs and customers. This program is a cornerstone of MeHI's efforts to grow and nurture the Commonwealth's digital health ecosystem under the direction of the Massachusetts Digital Health Initiative. Marketplace Program activities in fiscal year 2018 include:

- Awarding \$250,000 in additional grant funding for the Commonwealth's two primary digital health accelerators: PULSE@MassChallenge in Boston and TechSpring at Baystate Health in Springfield. With this funding, the two accelerators provided targeted support for over 60 digital health startups, helping them grow and compete;
- Maintenance of the online Digital Health Marketplace and the enhancements to the MassDigitalHealth.org community website, including maintenance of an ecosystem directory housing over 350 Massachusetts digital health companies and creation of a digital health jobs board;
- Designing and beginning implementation of a business development effort targeted at both local and out-of-state and international firms interested in relocating to Massachusetts. In fiscal year 2018, MeHI provided assistance to over a dozen companies interested in relocating to Massachusetts;
- Focus on supporting innovation in aging and caregiving in alignment with the Baker Administration's priorities. These activities included contracting with the Colorado Health Institute to develop a report and tool to quantify the impact of employee caregiver costs on Massachusetts employers and leading the efforts to advance the sharing of e-advance care planning documents in the Commonwealth.

To coordinate a shared strategy across the Baker-Polito Administration and private sector stakeholders around the direction of the Mass Digital Health Initiative, MassTech also maintains a Marketplace Program industry advisory group and provides management support to the Governor's Digital Health Advisory Council.

MeHI's **Medicaid Services** team provides enrollment and validation services relating to the Medicaid Incentive Program under an agreement with the Commonwealth of Massachusetts Executive Office of Health and Human Services.

In March of 2018, MeHI started the **Hlway Adoption and Outreach Services** efforts intended to provide development and delivery of services to promote Health Information Exchange adoption and utilization among healthcare providers under an agreement with the Commonwealth of Massachusetts Executive Office of Health and Human Services.

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Massachusetts eHealth Institute...continued

The **eHealth eQuality Program** was designed to support behavioral health (BH) and long-term and post-acute care (LTPAC) providers in Massachusetts in the adoption of interoperable EHR systems. The effective use of EHRs helps improve the quality and efficiency of health care. MeHI's program assisted BH and LTPAC providers in the procurement and implementation of interoperable EHRs and in the effective use of these technologies. This effort helps providers connect with one another using health IT, helping enhance patient care coordination, ease transitions between facilities, and advance healthcare in Massachusetts. The program also aligned with Massachusetts health reform efforts by positioning grantees to participate in ACOs and new models of care. The 38 grantees in the program represent over 200 facilities across the Commonwealth. Of the grantees, 84% met all of the program's milestones, having adopted and implemented interoperable EHRs; connected to a health information exchange (HIE); and successfully exchanged data over the HIE.

As part of the eHealth eQuality efforts, the Massachusetts Children's Behavioral Health Initiative (CBHI) and Child and Adolescent Needs and Strengths (CANS) grant program supported development of interfaces between Massachusetts BH providers' EHRs and CBHI virtual gateway to streamline submitting court-mandated CANS assessments using the Mass HIway. The interfaces allow providers to directly and automatically upload the required reports, eliminating redundant work and improving providers' ability to deliver necessary care to patients. During fiscal year 2018, the four EHR vendor grantees successfully implemented CBHI interfaces for three unaffiliated BH provider organizations each, helping these twelve organizations to submit, on average, 2,638 CANS assessments per month.

MeHI's **Connected Communities Program** worked to catalyze collaboration and advance the adoption and use of health IT to improve patient care and reduce healthcare costs. The Connected Communities program launched with MeHI collaborating with a diverse set of community stakeholders to inform the development of a statewide eHealth Plan intended to drive toward a more connected healthcare ecosystem in the Commonwealth. MeHI funded and worked with the eight Connected Communities grantees and their 78 project partners toward achieving their grant funded use cases. During fiscal year 2018, the Connected Communities grantees completed projects that contributed to improved outcomes among their healthcare communities, including a reduction in the average length of patient stay at a skilled nursing facility, a reduction in hospital readmission rates, an increase in clinical information available to a specialist before providing care to a referred patient, and a dramatic increase in the amount of secure electronic patient information that was shared among community providers.

Massachusetts Broadband Institute

The MBI was created as a division within MassTech in 2008. The MBI makes strategic and targeted public investments with the goal of expanding broadband access within unserved and underserved communities in Massachusetts.

In August 2014, \$50 million of capital bond funding was authorized by the Commonwealth for MBI to develop last mile solutions designed to bring broadband from centralized hubs to individual end users ("Last Mile"). During fiscal year 2018 a new \$45 million bond authorization by the Commonwealth was approved. Of this amount, \$32 million was authorized to ensure that all Last Mile towns will have a funded solution and that unserved towns receiving a grant from the Executive Office of Housing and Economic Development (EOHED) will have access to a contingency fund for possible make ready cost overages. The remaining \$13 million was authorized for MBI to have sufficient bond funds to complete the Last Mile program over the coming years and for future capital investment in its middle mile broadband network, MassBroadband 123.

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Years Ended June 30, 2018 and 2017

Massachusetts Broadband Institute...continued

During fiscal year 2018, MBI continued to identify solutions for the remaining unserved towns by issuing a Notice of Funding called the Last Mile Flexible Grant Program. This resulted in a variety of responses and potential solutions to serve up to 17 towns. The towns were presented with their proposed solutions. One town has selected their preferred option and the others are still evaluating their options. Charter and Comcast are working on the build out of eighteen towns. Comcast expects to complete the build out of 9 partially served towns in early fiscal year 2019 and has started on pre-construction activities in one additional town. Charter expects to complete the build out of three underserved towns in early fiscal year 2019 and they are also working with five additional unserved towns on pre-construction activities.

The Last Mile Infrastructure Grant Program, launched by EOHEd in April 2017, was modeled after their existing MassWorks grant program and was designed to provide funding for eligible unserved towns which will develop and build municipally-owned broadband networks. The program empowers communities to use these grants to fund design and engineering, and construction services directly, as they would other local infrastructure projects. The EOHEd is administering the Last Mile Infrastructure Grant Program with up to \$20 million in MBI's bond funds as approved by the MBI Board of Directors. To date, EOHEd has awarded grants to 22 towns totaling approximately \$19.5 million.

The *MassBroadband 123* network, which has been fully operational since early 2014, created a robust 'middle mile' fiber-optic network that stretches over 1,200 miles and directly connects approximately 1,100 key community facilities in over 120 communities. *MassBroadband 123* provides these communities with the ability to enhance education, drive healthcare innovation, and strengthen public safety through the direct connection to this 21st Century fiber-optic network. The *MassBroadband 123* network also creates an essential foundation to connect homes and businesses currently unserved by broadband, the so-called Last Mile of connectivity highlighted above.

The operator of the *MassBroadband 123* network, KCST, Inc., formerly Axia NGNetworks, USA, Inc. ("KCST"), filed for chapter 11 bankruptcy on March 22, 2017 with the U.S. Bankruptcy Court, District of Massachusetts, Case No. 17-40501. KCST continues to operate the *MassBroadband 123* network under contract with MassTech and has obtained a loan from its parent company, Axia Net Media Corporation ("Axia"), to fund certain network related costs. A consolidated arbitration between Axia NetMedia, KCST and MassTech was commenced in February of 2018 and a final award was made on November 8th by the American Arbitration Association ("KCST-Axia Arbitration Award") and has been accrued in the Statement of Net Position. Additional discussion of the legal proceedings involving KCST and Axia is provided in Footnote 10.

Campus Operations

MassTech owns, manages, and develops its Westborough, Massachusetts headquarters as the Massachusetts Technology Park Corporation. The use of the 36-acre campus reflects MassTech's mission to promote partnerships among industrial, educational, and governmental sectors.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MassTech's basic financial statements, which have three components: (1) government-wide financial statements, (2) fund-level financial statements, and (3) notes to the financial statements.

The basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government entities. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Massachusetts Technology Park Corporation

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Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2018 and 2017

Overview of the Financial Statements...continued

The financial statement presentation includes both government-wide and fund-level financial statements. The government-wide financial statements present both the governmental and business-type activities of MassTech on the full accrual basis of accounting. The fund-level statements include separate statements for (i) the governmental activities, which are supported by state appropriations and federal funding and (ii) the business-type activities, which rely on fees and charges for support. The governmental fund-level financial statements are reported on the modified accrual basis of accounting. A reconciliation of the governmental fund financial statements to the government-wide financial statements is provided in the fund-level statements in the basic financial statement section of the financial statements. All activities, both governmental and business-type, are performed as part of carrying out MassTech's essential governmental function.

Financial Analysis

The statement of net position is a government-wide statement that presents information on all of MassTech's assets, liabilities, plus deferred inflows of resources with the difference between the two reported as net position. Increases or decreases in net position serve as one indicator of MassTech's financial condition. On the following page is a summary of the statement of net position for fiscal years 2018 and 2017.

Massachusetts Technology Park Corporation
(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)
Summary of Statement of Net Position
June 30, 2018 and 2017

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
ASSETS						
Noncapital assets	\$ 40,352,851	\$ 13,713,131	\$ 54,065,982	\$ 41,301,478	\$ 16,174,721	\$ 57,476,199
Capital assets (net of accumulated depreciation)	58,835,579	5,602,903	64,438,482	65,136,137	6,193,219	71,329,356
Total assets	99,188,430	19,316,034	118,504,464	106,437,615	22,367,940	128,805,555
LIABILITIES						
Long-term liabilities outstanding	4,617,653	-	4,617,653	4,756,913	-	4,756,913
Other liabilities	21,229,695	479,447	21,709,142	9,714,442	128,270	9,842,712
Total liabilities	25,847,348	479,447	26,326,795	14,471,355	128,270	14,599,625
NET POSITION						
Net investment in capital assets	\$ 58,835,579	\$ 5,602,903	\$ 64,438,482	\$ 65,136,137	\$ 6,193,219	\$ 71,329,356
Restricted for:						
Massachusetts e-Health Institute	11,517,285	-	11,517,285	15,958,263	-	15,958,263
Innovation Institute	5,355,478	-	5,355,478	4,431,549	-	4,431,549
Massachusetts Broadband Institute	1,999,133	-	1,999,133	1,779,630	-	1,779,630
Economic Development	-	-	-	-	-	-
Campus Development/other corporate purposes	-	2,601,538	2,601,538	-	2,601,538	2,601,538
Unrestricted	(4,366,393)	10,632,146	6,265,753	4,660,681	13,444,913	18,105,594
Total net position	\$ 73,341,082	\$ 18,836,587	\$ 92,177,669	\$ 91,966,260	\$ 22,239,670	\$ 114,205,930

Massachusetts Technology Park Corporation

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Assets

MassTech's total assets were approximately \$122.9 million as of June 30, 2018, a decrease of approximately \$5.9 million from the prior year.

MassTech's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounts to approximately \$64.4 million net of depreciation. The investment in capital assets includes buildings, improvements, furniture, equipment, and broadband infrastructure. The decrease in investment in capital assets for the current fiscal year was approximately \$6.9 million primarily attributable to depreciation of the MassBroadband 123 network. Refer to Note 3 of the financial statements for more detailed information about capital assets.

Liabilities and Deferred Inflows of Resources

Liabilities were approximately \$30.7 million as of June 30, 2018, an increase of approximately \$16.1 million from the prior year. Of this change, approximately \$0.4 million relates to an increase in accrued expenses and accounts payable in the Innovation Institute primarily for research and development (R&D) match and other financial assistance activities. Approximately \$10.0 million relates to an increase in accrued expenses and accounts payable in MBI, primarily related to the accrual of \$8.2 million for the KCST-Axia Arbitration Award, as well as \$1.8 million of MBI Last Mile grants. Unavailable revenue for MBI also increased by approximately \$1.3 million, also related to MBI Last Mile grants that have not yet been expended. The remaining \$4.6 million increase is related to funds due from Proprietary Fund to cover a portion of the KCST-Axia Arbitration Award.

MassTech has no long-term debt outstanding.

Net Position

Between fiscal years 2017 and 2018, the net position has decreased by approximately \$22.0 million to approximately \$92.2 million.

Net investment in capital assets represents approximately 69.9% of net position as of June 30, 2018. Of the remaining approximately 30.1% of MassTech's net position at June 30, 2018, approximately 5.8% is attributable to the Innovation Institute, approximately 12.5% to MEHI, approximately 2.2% to MBI, approximately 2.8% to Campus Operations and other corporate purposes and the remaining approximately 6.8% is classified as unrestricted.

The governmental activities net position is either restricted as to the purpose to which it can be used, or is invested in capital assets. Consequently, governmental activities show a deficit of approximately (\$4.7 million) for unrestricted net position compared to prior year, primarily as a result of funds utilized for a portion of the KCST-Axia Arbitration Award, certain Mass Broadband Institute related expenses and a portion of the Research & Communications & Grant Administration services expenses.

Approximately \$58.8 million is invested in capital assets. Of this amount, \$58.6 million is related to the MassBroadband 123 network.

Restricted net position of Massachusetts e-Health Institute decreased by approximately \$4.4 million as a result of the net impact of approximately \$2.6 million in revenues, primarily from the Commonwealth, offset by operating expenses, financial assistance expenses, transfers and capital expenditures of approximately \$7.0 million.

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Net Position...continued

Restricted net position of the Innovation Institute increased by approximately \$0.9 million as a result of the net impact of approximately \$10.2 million in revenues, primarily from the Commonwealth, offset by operating expenses, financial assistance expenses, transfers and capital expenditures of approximately \$9.3 million.

Restricted net position of the MBI increased by approximately \$0.2 million as a result of the net impact of approximately \$6.1 million in revenues, primarily from the Commonwealth, offset by operating and financial assistance expenses of approximately \$5.9 million.

The net position of the business-type activities was approximately \$18.8 million as of June 30, 2018, a decrease of approximately \$3.4 million from the prior year end. The primary function of the business-type activities is the Campus Operations, the fund that relates to the development and maintenance of the 36-acre campus in Westborough, Massachusetts. Of the total net position, approximately \$5.6 million was invested in capital assets, approximately \$2.6 million was restricted for future investment in the campus and its buildings or other related purposes, and the remaining balance of approximately \$10.6 million was unrestricted.

The summary statement of net position shows how the fiscal year activities impacted the net position. The following page contains the summary of changes in the statement of net position for the fiscal years 2018 and 2017:

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 Summary of Statement of Net Position
 Years Ended June 30, 2018 and 2017

	2018			2017		
	Governmental	Business-Type	Total	Governmental	Business-Type	Total
	Activities	Activities		Activities	Activities	
Revenue:						
State funding	\$ 16,999,406	\$ -	\$ 16,999,406	\$ 18,174,258	\$ -	\$ 18,174,258
Outsourced corporate services	106,344	-	106,344	90,000	-	90,000
Other revenue	1,434,470	-	1,434,470	1,379,724	-	1,379,724
Campus operations	-	853,542	853,542	-	844,574	844,574
Total revenue	18,540,220	853,542	19,393,762	19,643,982	844,574	20,488,556
Expenses:						
Innovation Institute	8,948,760	-	8,948,760	8,516,739	-	8,516,739
Massachusetts e-Health Institute	6,826,446	-	6,826,446	7,934,245	-	7,934,245
Massachusetts Broadband Institute	24,430,248	-	24,430,248	14,119,084	-	14,119,084
Economic Development	934,537	-	934,537	119,674	-	119,674
Outsourced corporate services	103,318	-	103,318	90,000	-	90,000
Campus operations	-	914,218	914,218	-	1,065,879	1,065,879
Total expenses	41,243,309	914,218	42,157,527	30,779,742	1,065,879	31,845,621
Net position	(22,703,089)	(60,676)	(22,763,765)	(11,135,760)	(221,305)	(11,357,065)
Transfers	3,586,323	(3,586,323)	-	-	-	-
Investment earnings	491,588	243,916	735,504	356,824	136,037	492,861
Change in net position	(18,625,178)	(3,403,083)	(22,028,261)	(10,778,936)	(85,268)	(10,864,204)
Net position - beginning of year	91,966,260	22,239,670	114,205,930	102,745,196	22,324,938	125,070,134
Net position - end of year	\$ 73,341,082	\$ 18,836,587	\$ 92,177,669	\$ 91,966,260	\$ 22,239,670	\$ 114,205,930

Massachusetts Technology Park Corporation

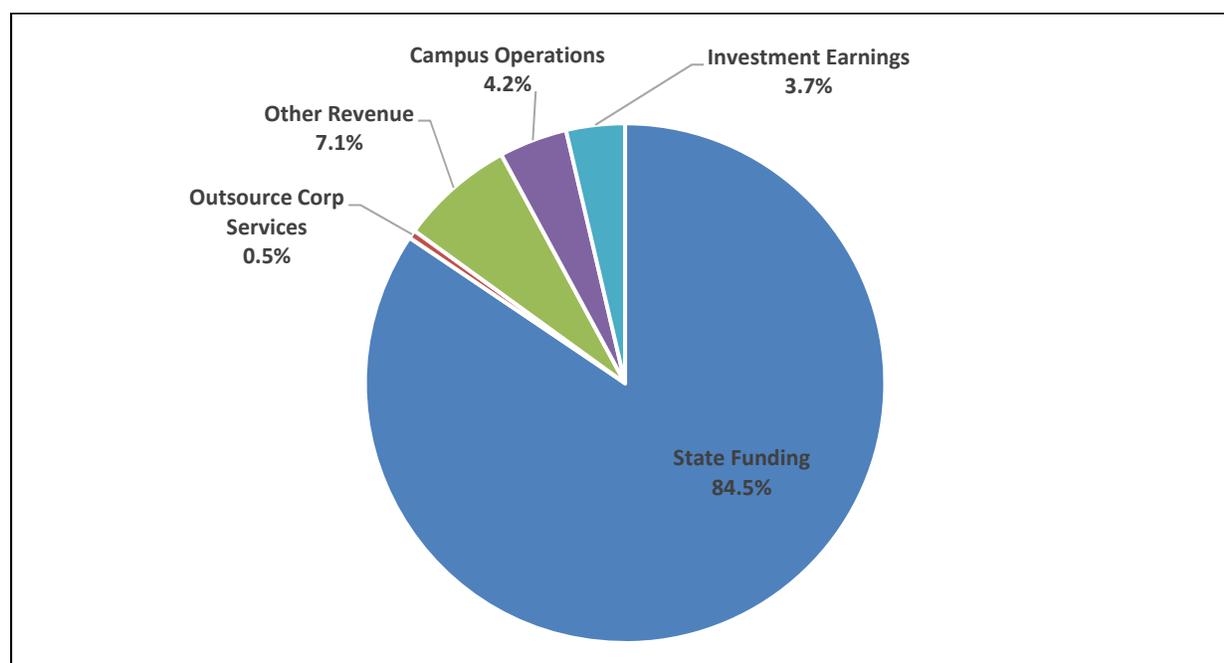
(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2018 and 2017

Total governmental and business-type revenues, including investment earnings, were approximately \$20.1 million for the fiscal year ended on June 30, 2018, which was a decrease of approximately \$0.9 million from the prior year. The change in the revenue results from a decrease of approximately \$1.2 million in state revenue and an increase in investment earnings and other revenue of \$0.3 million. The state funding decreased primarily due to decreased funding for MeHI (fiscal year 2017 was the last year of Chapter 224 funding), decreased reimbursement funding for the MBI Last Mile Program offset by increased appropriations for the Innovation Institute, MassCAN and the MassTech Intern Partnership and Massachusetts Innovation Mentoring Initiative. Total expenses increased by approximately \$10.3 million. MeHI's expenses decreased by approximately \$1.1 million, primarily as a result of a decrease in shared services. MBI expenses increased by approximately \$10.3 million, primarily as a result of the accrual of the KCST-Axia Arbitration Award and Last Mile grant expenses. The Innovation Institute's expenses increased by approximately \$0.4 million, primarily as a result of increased financial assistance expenses for the Scientific and Technology Research and Development Matching Grants. The Economic Development Fund's expenses increased by approximately \$0.8 million, primarily due to covering certain MBI operating expenses and related costs, as well as a portion of Research & Communications and Grant Administration expenses. The Proprietary Fund's expenses decreased by approximately \$0.2 million, primarily due to a decrease in personnel and related allocations.

Revenue

The total revenues of MassTech for the fiscal year ended June 30, 2018, were \$20.1 million, including investment earnings. Total revenues break down by source as follows:



Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

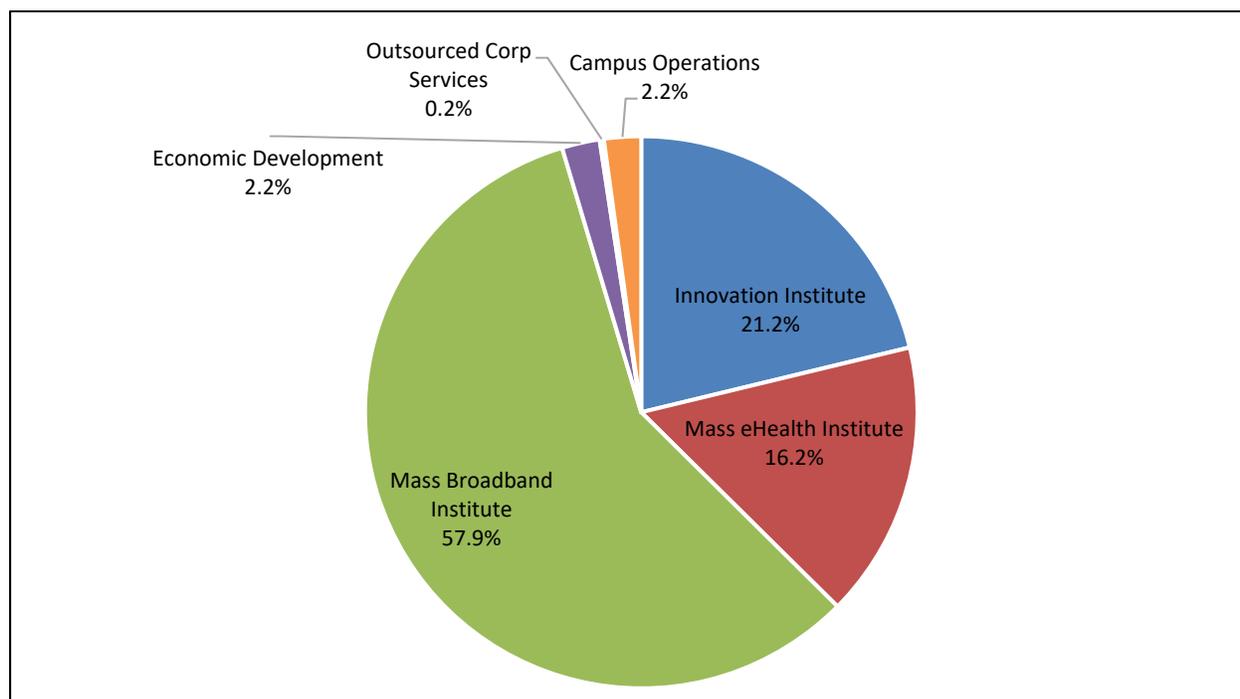
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2018 and 2017

Revenue...continued

MassTech's primary source of programmatic revenue during this fiscal year was state funding. The state funding included bond funds for MBI and the Innovation Institute's R&D Matching Grant Fund, the Innovation Institute appropriations, and various State Agency service contracts. Other sources of revenue for fiscal year 2018 include fees from the Massachusetts Life Sciences Center for outsourced corporate services, network operator payments, rentals of campus buildings, and investment earnings.

Expenses

The expenses for fiscal year 2018 were approximately \$42.2 million, which in addition to operating costs includes approximately \$13.2 million of financial assistance expenses, \$8.2 million of MBI Network Operations expenses and \$6.9 million of depreciation expense, most of which is related to the MassBroadband 123 network. Financial assistance expenses are those paid out to award recipients or third-parties for projects which directly benefit the stakeholders in the Commonwealth. The financial assistance expenses in fiscal year 2018 relate to awards made in prior fiscal years as well as the current fiscal year. The breakdown of expense by division, based upon the fund-level financial statements is as follows:



Requests for Information

This report is intended to provide an overview of MassTech's financial condition. Questions concerning any of the information in this report or request for additional information should be addressed to the Massachusetts Technology Park Corporation, 75 North Drive, Westborough, MA 01581 and to the attention of the Chief Financial Officer.

Massachusetts Technology Park Corporation
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 11,096,518	\$ 11,096,518
Restricted cash and cash equivalents	17,625,279	2,601,538	20,226,817
Accounts receivable:			
Due from other funds	338,453	-	338,453
Other receivables	10,233,907	15,075	10,248,982
Prepaid expense and other assets	452,737	-	452,737
Cash committed for program awards:			
Cash and cash equivalents	11,702,475	-	11,702,475
Total noncapital assets	<u>40,352,851</u>	<u>13,713,131</u>	<u>54,065,982</u>
Capital assets (net of accumulated depreciation):			
Buildings	52,143	5,202,997	5,255,140
Improvements	56,298	381,085	437,383
Equipment	27,237	411	27,648
Furniture and fixtures	127,605	18,410	146,015
Fiber network	58,572,296	-	58,572,296
Total capital assets	<u>58,835,579</u>	<u>5,602,903</u>	<u>64,438,482</u>
Total assets	<u>99,188,430</u>	<u>19,316,034</u>	<u>118,504,464</u>
LIABILITIES			
Accounts payable	1,256,250	-	1,256,250
Accrued expenses	22,293,905	-	22,293,905
Funding received in advance	2,225,922	-	2,225,922
Due to other funds	-	338,453	338,453
Other liabilities	71,271	140,994	212,265
Total liabilities	<u>25,847,348</u>	<u>479,447</u>	<u>26,326,795</u>
NET POSITION			
Net investment in capital assets	58,835,579	5,602,903	64,438,482
Restricted for:			
Massachusetts e-Health Institute	11,517,285	-	11,517,285
Innovation Institute	5,355,478	-	5,355,478
Massachusetts Broadband Institute	1,999,133	-	1,999,133
Campus development/other corporate purposes	-	2,601,538	2,601,538
Unrestricted	<u>(4,366,393)</u>	<u>10,632,146</u>	<u>6,265,753</u>
Total net position	<u>\$ 73,341,082</u>	<u>\$ 18,836,587</u>	<u>\$ 92,177,669</u>

See notes to financial statements.

Massachusetts Technology Park Corporation
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenue Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		Total
				Governmental Activities	Business-Type Activities	
Governmental activities:						
Innovation Institute	\$ 8,948,760	\$ 673,966	\$ 9,370,489	\$ 1,095,695	\$ -	\$ 1,095,695
Massachusetts e-Health Institute	6,826,446	2,358,217	-	(4,468,229)	-	(4,468,229)
Massachusetts Broadband Institute	24,430,248	1,311,734	4,719,470	(18,399,044)	-	(18,399,044)
Economic development	934,537	-	-	(934,537)	-	(934,537)
Outsourced corporate services	103,318	106,344	-	3,026	-	3,026
Total governmental activities	<u>41,243,309</u>	<u>4,450,261</u>	<u>14,089,959</u>	<u>(22,703,089)</u>	<u>-</u>	<u>(22,703,089)</u>
Business-type activities:						
Campus operations	914,218	853,542	-	-	(60,676)	(60,676)
Total business-type activities	<u>914,218</u>	<u>853,542</u>	<u>-</u>	<u>-</u>	<u>(60,676)</u>	<u>(60,676)</u>
Total	<u>\$ 42,157,527</u>	<u>\$ 5,303,803</u>	<u>\$ 14,089,959</u>	<u>(22,703,089)</u>	<u>(60,676)</u>	<u>(22,763,765)</u>
General Revenues:						
Investment earnings				491,588	243,916	735,504
Transfers				3,586,323	(3,586,323)	-
Change in net position				<u>(18,625,178)</u>	<u>(3,403,083)</u>	<u>(22,028,261)</u>
Net position - beginning of year				<u>91,966,260</u>	<u>22,239,670</u>	<u>114,205,930</u>
Net position - end of year				<u>\$ 73,341,082</u>	<u>\$ 18,836,587</u>	<u>\$ 92,177,669</u>

See notes to financial statements.

Massachusetts Technology Park Corporation
(A Component Unit of the Commonwealth of Massachusetts)

Balance Sheet - Governmental Fund
June 30, 2018

	<u>General Fund</u>
ASSETS	
Restricted cash and cash equivalents	\$ 17,625,279
Due from other funds	338,453
Other receivables	10,233,907
Prepaid expenses and other assets	452,737
Cash committed for program awards:	
Cash and cash equivalents	<u>11,702,475</u>
Total assets	<u><u>\$ 40,352,851</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 1,256,250
Accrued expenses	9,475,181
Funding received in advance	2,225,923
Other current liabilities	61,004
Total liabilities	<u>13,018,358</u>
Deferred inflows of resources:	
Unavailable revenue	<u>4,983,705</u>
Total deferred Inflows of resources	<u>4,983,705</u>
Fund balance:	
Non-Spendable	452,737
Committed	11,702,475
Restricted	10,195,576
Total fund balance	<u>22,350,788</u>
Total liabilities, deferred Inflows of resources, and fund balance	<u><u>\$ 40,352,851</u></u>
Total fund balance of governmental fund	\$ 22,350,788
Amounts reported for governmental funds above and those reported for governmental activities in the statement of net position are different because:	
Some liabilities are not due and payable in the current period and therefore are not reported in the fund statements	(12,828,990)
Unavailable revenues met the criteria for revenue recognition in the statement of activities	4,983,705
Capital assets used in governmental activities are not financial resources and, therefore, not reported in funds (net of accumulated depreciation)	<u>58,835,579</u>
Net position of governmental activities	<u><u>\$ 73,341,082</u></u>

See notes to financial statements.

Massachusetts Technology Park Corporation
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Revenue, Expenditures and Changes in Fund Balance - Governmental Fund
Year Ended June 30, 2018

	<u>General Fund</u>
Revenue:	
State funding	\$ 13,638,102
Investment earnings	491,588
Outsourced corporate services	106,344
Other revenue	<u>1,532,811</u>
Total revenues	<u>15,768,845</u>
Expenditures:	
Innovation Institute	8,945,075
Massachusetts e-Health Institute	6,797,504
Massachusetts Broadband Institute	10,091,769
Economic development	933,006
Outsourced corporate services	<u>103,318</u>
Total expenditures	<u>26,870,672</u>
Other financing sources:	
Transfers in	<u>3,586,323</u>
Net change in fund balance	(7,515,504)
Fund balance - beginning of year, as restated	<u>29,866,292</u>
Fund balance - end of year	<u>\$ 22,350,788</u>
Net change in fund balance - general fund	\$ (7,515,504)
Amounts reported for governmental funds above and those reported for governmental activities in the statement of activities are different because:	
Unavailable revenues met the criteria for revenue recognition in the statement of activities	4,983,705
Some revenues in the fund statements were recognized in the statement of activities in a prior year	(1,720,744)
Some programmatic expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	(8,072,077)
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of capital is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:	<u>(6,300,558)</u>
Change in net position of governmental activities	<u>\$ (18,625,178)</u>

See notes to financial statements.

Massachusetts Technology Park Corporation
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Net Position - Proprietary Fund
June 30, 2018

	<u>Campus Operations</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 11,096,518
Restricted cash and cash equivalents	2,601,538
Prepaid expenses and other current assets	15,075
Total current assets	<u>13,713,131</u>
Capital assets:	
Buildings	20,383,318
Improvements	1,321,849
Equipment	87,191
Furniture and fixtures	174,670
Total capital assets	21,967,028
Less - accumulated depreciation	(16,364,125)
Total capital assets - net	<u>5,602,903</u>
Total assets	<u>\$ 19,316,034</u>
LIABILITIES	
Current liabilities:	
Due to other Funds	\$ 338,453
Other liabilities	126,844
Total current liabilities	<u>465,297</u>
Noncurrent liabilities:	
Other liabilities	14,150
Total noncurrent liabilities	<u>14,150</u>
Total liabilities	<u>479,447</u>
NET POSITION	
Net investment in capital assets	5,602,903
Restricted for campus development/other purposes	2,601,538
Unrestricted	10,632,146
Total net position	<u>18,836,587</u>
Total liabilities and net position	<u>\$ 19,316,034</u>

See notes to financial statements.

Massachusetts Technology Park Corporation
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Fund
Year Ended June 30, 2018

	<u>Campus Operations</u>
Operating revenue:	
Operating lease revenue	\$ 704,454
Reimbursement from other funds	149,088
Total operating revenue	<u>853,542</u>
Operating expenses:	
Personnel and support services	296,696
Depreciation	617,522
Total expenses	<u>914,218</u>
Operating loss	(60,676)
Nonoperating revenue - interest income	243,916
Other financing sources:	
Transfers out	<u>(3,586,323)</u>
Change in net position	(3,403,083)
Total net position - beginning of year	<u>22,239,670</u>
Total net position - end of year	<u>\$ 18,836,587</u>

See notes to financial statements.

Massachusetts Technology Park Corporation
(A Component Unit of the Commonwealth of Massachusetts)

Statement of Cash Flows - Proprietary Fund
Year Ended June 30, 2018

	<u>Campus Operations</u>
Cash flows from operating activities:	
Receipts from leases and rentals	\$ 718,372
Reimbursement from other funds	149,088
Payroll and vendor payments	<u>(297,014)</u>
Net cash provided by operating activities	570,446
Cash flows used in noncapital financing activities - interfund activities	(3,134,009)
Cash flows used in capital and related financing activities - capital purchases	(27,206)
Cash flows from investing activities - interest received	<u>243,916</u>
Net decrease in cash and cash equivalents	(2,346,853)
Cash and cash equivalents-beginning of year	<u>16,044,909</u>
Cash and cash equivalents-end of year	<u><u>\$ 13,698,056</u></u>
Displayed as:	
Cash and cash equivalents	\$ 11,096,518
Restricted cash and cash equivalents	<u>2,601,538</u>
	<u><u>\$ 13,698,056</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (60,676)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	617,522
Changes in assets and liabilities:	
Accounts receivables	14,200
Accrued expenses	(75)
Other liabilities	<u>(525)</u>
Net cash provided by operating activities	<u><u>\$ 570,446</u></u>

See notes to financial statements.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Massachusetts Technology Park Corporation (“MassTech” or the “Organization”), which does business as the Massachusetts Technology Collaborative, have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government entities. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Organization’s significant accounting policies are described below.

Reporting Entity

The Organization is a public instrumentality of the Commonwealth of Massachusetts (the “Commonwealth”) created pursuant to Chapter 40J of the Massachusetts General Laws (“MGL”). The public purpose of MassTech is to advance the growth and development of the technology sector of the Commonwealth’s economy.

Mass Tech is responsible for the oversight of:

- (i) The Innovation Institute at MassTech (the “Innovation Institute”), a technology and innovation economic development effort, identifying key opportunities for economic growth and supporting industry-led growth initiatives within the technology sector of the economy;
- (ii) The Massachusetts e-Health Institute (“MeHI”), established to advance the adoption and dissemination of health technologies across the Commonwealth;
- (iii) The Massachusetts Broadband Institute (“MBI”), established to extend affordable broadband access to unserved and underserved communities in Massachusetts;
- (iv) A 36-acre campus and its related operations.

MassTech is governed by a board of directors (the “Board”) comprised of 23 members, including 20 individuals appointed by the Governor and three state officials that serve in an ex officio capacity, including the Secretary of Administration and Finance, the Secretary of Housing and Economic Development, and the Commissioner of Higher Education.

In accordance with the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an Amendment of GASB Statement 14*, and GASB Statement No. 61, *the Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, the financial statements must present the Organization and its component units. The Organization has no component units. The Organization, however, is considered a component unit of the Commonwealth and, accordingly, its financial statements are incorporated into the financial statements of the Commonwealth.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Government-Wide and Fund-Level Financial Statements

The financial statements include both government-wide and fund-level reporting. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Organization. In the government-wide reporting model, governmental activities (those supported by state funding, federal grants, and other program generated sources) are reported separately from business-type activities which rely on fees and charges for support. The statement of activities demonstrates the degree to which the expenses of a given function are offset by program revenue. Expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) state appropriations, bond funding, and other funding that support specific programmatic functions of the Organization; (2) network operator fees; (3) lease and rental revenue; and (4) event sponsorship and other revenues. The effects of interfund activity has been removed from these statements.

The fund-level statements are separate financial statements provided for governmental funds and proprietary funds. In the fund-level reporting model, MassTech reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts that comprise its assets, liabilities, fund balance or net position, revenue, and expenditures/expenses. Transactions between funds, if any, have not been eliminated.

The Organization reports the following major governmental fund:

- The General Fund is the Organization's primary operating fund. It accounts for all financial resources of the Organization used in its governmental activities. Specifically, the General Fund is used to account for the Innovation Institute, MBI, and MeHI.

The Organization reports the following major proprietary fund:

- The Campus Operations Fund accounts for the activities of the Organization's operations related to the Massachusetts Technology Park campus.

Measurement Focus, Basis of Accounting, and Financial Reporting Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the proprietary fund in the fund-perspective financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. State appropriations and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Measurement Focus, Basis of Accounting, and Financial Reporting Presentation...continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual: generally, when they are both measurable and available. Revenue is considered available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period, generally within 60 days of the fiscal year end. Significant revenues susceptible to accrual include state appropriation and bond revenue. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgements, are recorded only when payment is due, or when the Organization has made a decision to fund those obligations with current available resources.

The proprietary fund distinguishes between operating revenue and expenses and non-operating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the campus operations is rental income. Operating expenses include the cost of operating and maintaining the campus and depreciation. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

Budgets and Appropriations

Annual budgets are adopted on a basis consistent with GAAP. MassTech's annual budgets are initially developed through an internal process that includes the submission of operational and programmatic projections from senior managers. Internal budget projections are then reviewed and modified as appropriate by MassTech's executive management. The annual budget is presented to the Board-level Finance and Audit Committee (the "Committee") and other appropriate programmatic committees for further review, comment, and modifications. The Committee then presents the annual operating budget to MassTech's Executive Committee of the Board for final approval and adoption. During the year, MassTech's executive management meets with the Committee to review actual-to-budget variances and identify any adjustments that may be required. The budget approved by the Board is used for the purposes of management accountability. The budget passed by the Board is not, however, considered a legally adopted budget and, therefore, is not presented as required supplemental information to the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist substantially of interest-bearing deposits with financial institutions and investments with maturities of three months or less when acquired. MassTech maintains funds that are restricted as to use either by contractual agreement or State funding intent.

Cash and Cash Equivalents - Committed for Program Awards

Such amounts represent cash and cash equivalents held by MassTech to be expended for certain programmatic purposes based upon specific awards approved by the Chief Executive Officer, the Board, and executive committee.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Investments

MassTech's investments are reported at fair value using quoted market price or the best available estimate thereof. Fair value is defined by GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. MassTech categorizes its fair value measurements within the fair value GAAP hierarchy.

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenues, expenses and changes in net position. None of MassTech's investments in 2018 and 2017 qualified to be reported under this hierarchy in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, but instead qualify as cash equivalents under GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, as MassTech participates in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost as described in Note 2.

Accounts Receivable

Accounts Receivable represents the amounts owed to MassTech from the Commonwealth of Massachusetts and from other sources of income and reimbursements. Balances that management has deemed uncertain with regard to collectability have been reserved. No reserves were deemed necessary at June 30, 2018.

Capital Assets

Capital assets in the proprietary fund and government-wide governmental activities with a value of greater than \$5,000 at the date acquired are recorded at cost, or in instances of donation, at fair value at the date of donation. The estimated useful life of the asset categories are as follows:

Buildings	40 years
Improvements	5 - 7 years
Equipment	3 years
Furniture and fixtures	7 years
Fiber network - outside plant	20 years
Conduit	20 years
Indefeasible rights of use	25 years
Point of interconnections	10 years
Other network equipment	5 years

Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Accounts Payable and Accrued Expenses

The Organization accrues expenses on a monthly basis based on current contracts and invoices. The Organization accrues amounts for compensated absences as earned up to certain limitations, which represent benefit amounts payable to employees upon termination of employment. Those amounts and claims and judgments are reported as accrued expenses in the statement of net position.

Deferred Inflows of Resources

In addition to liabilities, the governmental balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. MassTech reports its governmental fund unavailable revenues in this category. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Net Position

- Net investment in capital assets - Net investment in capital assets represent net position consisting of capital assets, net of accumulated depreciation. At June 30, 2018, the government-wide statement of net position reports approximately \$64.4 million of net investments in capital assets.
- Restricted - Restricted net position represents net position that is not available as it's legally restricted by enabling legislation or by outside parties for use for a specific purpose. Specifically, the Organization's restricted net position is restricted for use in the Innovation Institute, MeHI, MBI, other legislatively approved mandates, and for other purposes related to the operations of the campus and for programmatic development. At June 30, 2018, the government-wide statement of net position reports approximately \$21.5 million of restricted net position.
- Unrestricted - Unrestricted net position represents net position that is not subject to legal restrictions imposed by enabling legislation or by outside parties for use for a specific purpose. Unrestricted net position may be designated for specific purposes by action of management or the Board or may otherwise be limited by contractual agreements with outside parties. As of June 30, 2018, the government-wide statement of net position reports approximately \$6.3 million of unrestricted net position.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that are based primarily on the extent to which MassTech is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable - This classification includes amounts not in a spendable form, or funds legally or contractually required to be maintained intact. MassTech has classified its prepaid expenses as non-spendable.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Fund Balance...continued

- Committed - This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of MassTech's highest required level of decision-making authority. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- Restricted - This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. MassTech has classified legislatively appropriated funds for MBI, MEHI, and Innovation Institute and related investment earnings as restricted. In addition, MassTech also classifies other funds from the Commonwealth or third parties that have specified purposes as restricted.

Net Position and Fund Flow Assumption

MassTech generally uses amounts committed for the intended purposes first. If restricted resources are available for use for a certain purpose, the Organization would use those restricted resources next, and then unrestricted resources as needed.

Income Taxes

MassTech has been determined to be a component unit of the Commonwealth. Accordingly, income earned by MassTech is not included within the definition of income as defined in Section 61 of the Internal Revenue Code. Therefore, MassTech is not required to file federal and state income tax returns.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In November 2016 GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is permitted. Earlier application is encouraged. The adoption of this standard is not expected to have a significant impact on MassTech's financial statements.

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Recently Issued Accounting Pronouncements...continued

In June 2017, GASB issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this standard are effective for reporting periods beginning after December 15, 2019. Early adoption is permitted. MassTech is currently evaluating the impact this pronouncement will have on the financial statements.

In June 2018, the GASB issued GASB No. 89-*Accounting for Interest Cost Incurred before the End of a Construction Period*. This objective of this standard is to establish accounting requirements for interest cost incurred before the end of a construction period. This standard is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. The requirements of this standard should be applied prospectively. MassTech is currently evaluating the impact this pronouncement will have on the financial statements.

2. CASH AND CASH EQUIVALENTS

The Board of MassTech is empowered under Chapter 40J of the MGL to invest corporate assets pending their programmatic use pursuant to the prudent investor rule under Massachusetts law, subject to the fiduciary standards contained in Chapter 32 of the MGL. During fiscal year 2018, these assets were fully allocated to short-term investments/money market accounts which qualify as cash equivalents.

Custodial Credit Risk - Deposits: Custodial credit risk for deposits exists when, in the event of a failure of a depository financial institution, MassTech's deposits may not be recovered. MassTech does not have a formal policy for custodial credit risk.

At June 30, 2018, bank deposits were \$1,521,217 which excludes the amount held in the Massachusetts Municipal Depository Trust ("MMDT" or the "Trust"). Of that amount \$250,000 was not exposed to custodial credit risk as uninsured and uncollateralized because it was insured by the FDIC. The remaining balance of \$1,271,217 was exposed to such risk.

The Organization invests some of its funds in the MMDT, an investment pool for political subdivisions of the Commonwealth designed as a legal means to invest temporarily available cash. The state treasurer serves as the trustee of MMDT, and has sole authority pertaining to rules, regulations, and operations of the Trust.

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Notes to Financial Statements
Year Ended June 30, 2018

2. CASH AND CASH EQUIVALENTS...continued

Investment options the MMDT offers are a cash portfolio which offers participation in a diversified portfolio of high-quality money-market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity and Short-Term Bond Portfolio which offers participation in a diversified portfolio of investment-grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, presenting a fixed-income alternative with a longer time horizon than the cash portfolio. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized. MassTech's investment balance as of June 30, 2018 at MMDT was solely in the cash portfolio. The cash portfolio is not registered with the Securities and Exchange Commission as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which amends Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. At June 30, 2018 MassTech's deposits with MMDT totaled \$42,683,968. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110

The following summarizes the cash and cash equivalents of the MassTech and identifies certain types of investment risk as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, at June 30, 2018:

Cash balance	\$ 341,842
Massachusetts Municipal Depository Trust ("MMDT") – Cash Portfolio	<u>42,683,968</u>
	<u>\$ 43,025,810</u>

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MassTech manages its exposure to interest rate risk by investing solely in cash portfolios within MMDT.

Credit Risk: Credit risk is the risk that the Organization's investments will be negatively impacted due to a default of their investments. MassTech manages its exposure to credit risk by investing solely in cash portfolios within MMDT.

Concentration of Credit Risk: Concentration of credit risk is assumed to arise when the amount of investments that the Organization has with any one issuer exceeds five percent of the total value of the investments. MassTech manages its exposure to the concentration of credit risk by investing solely in cash portfolios within MMDT.

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Notes to Financial Statements
Year Ended June 30, 2018

3. CAPITAL ASSETS

Capital assets of MassTech at June 30, 2018 are summarized as follows:

	Governmental Activities	Business- Type Activities	Total
Buildings	\$ 91,803	\$ 20,383,318	\$ 20,475,121
Improvements	500,058	1,321,849	1,821,907
Equipment	780,541	87,191	867,732
Furniture and fixtures	503,634	174,670	678,304
Fiber network - outside plant	54,974,809	-	54,974,809
Conduit	6,150,120	-	6,150,120
Poles	177,568	-	177,568
Indefeasible right of use	4,243,317	-	4,243,317
Points of interconnection	13,278,406	-	13,278,406
Community anchor institutions	6,370,251	-	6,370,251
Other equipment	765,879	-	765,879
Spares MB123	<u>1,073,725</u>	<u>-</u>	<u>1,073,725</u>
	<u>88,910,111</u>	<u>21,967,028</u>	<u>110,877,139</u>
Less - accumulated depreciation:			
Buildings	(39,661)	(15,180,321)	(15,219,982)
Improvements	(443,761)	(940,764)	(1,384,525)
Equipment	(753,303)	(86,780)	(840,083)
Furniture and fixtures	(376,029)	(156,260)	(532,289)
Fiber network - outside plant	(12,664,630)	-	(12,664,630)
Conduit	(1,381,539)	-	(1,381,539)
Poles	(39,506)	-	(39,506)
Indefeasible right of use	(850,164)	-	(850,164)
Points of interconnection	(6,241,735)	-	(6,241,735)
Community anchor institutions	(5,659,346)	-	(5,659,346)
Other equipment	(765,879)	-	(765,879)
Spares MB123	<u>(858,979)</u>	<u>-</u>	<u>(858,979)</u>
	<u>(30,074,532)</u>	<u>(16,364,125)</u>	<u>(46,438,657)</u>
Capital assets - net	<u>\$ 58,835,579</u>	<u>\$ 5,602,903</u>	<u>\$ 64,438,482</u>

Total depreciation expense for the year ended June 30, 2018, was \$6,918,080. Of that amount, \$6,300,558 (comprising approximately \$37,977, \$128,235, and \$6,134,346 in the Innovation Institute, MeHI, and MBI, respectively) is reported in the governmental activities and \$617,522 is reported in the business-type activities.

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2018

3. CAPITAL ASSETS...continued

<u>Governmental Activities</u>	Balance July 1, 2017	Additions	Transfers/ Disposals/ Adjustments	Balance June 30, 2018
Buildings	\$ 91,803	\$ -	\$ -	\$ 91,803
Improvements	500,058	-	-	500,058
Equipment	780,541	-	-	780,541
Furniture and fixtures	504,175	36,867	(37,408)	503,634
Fiber network - outside plant	54,974,809	-	-	54,974,809
Conduit	6,150,120	-	-	6,150,120
Poles	177,568	-	-	177,568
Indefeasible rights of use	4,243,317	-	-	4,243,317
Points of interconnection	13,278,406	-	-	13,278,406
Community anchor institution	6,370,251	-	-	6,370,251
Other equipment	765,879	-	-	765,879
Spares MB123	1,073,725	-	-	1,073,725
Construction-in-process	-	-	-	-
	<u>88,910,652</u>	<u>36,867</u>	<u>(37,408)</u>	<u>88,910,111</u>
Less - accumulated depreciation:				
Building	(37,007)	(2,654)	-	(39,661)
Improvement	(404,332)	(39,429)	-	(443,761)
Equipment	(660,255)	(93,048)	-	(753,303)
Furniture and fixtures	(341,987)	(67,957)	33,915	(376,029)
Fiber network - outside plant	(9,915,438)	(2,749,192)	-	(12,664,630)
Conduit	(1,074,032)	(307,507)	-	(1,381,539)
Poles	(30,627)	(8,879)	-	(39,506)
Indefeasible rights of use	(680,432)	(169,732)	-	(850,164)
Points of interconnection	(4,913,596)	(1,328,139)	-	(6,241,735)
Community anchor institution	(4,381,650)	(1,277,696)	-	(5,659,346)
Other equipment	(690,924)	(74,955)	-	(765,879)
Spares MB123	(644,235)	(214,744)	-	(858,979)
	<u>(23,774,515)</u>	<u>(6,333,932)</u>	<u>33,915</u>	<u>(30,074,532)</u>
Capital assets - net	<u>\$ 65,136,137</u>	<u>\$ (6,297,065)</u>	<u>\$ (3,493)</u>	<u>\$ 58,835,579</u>

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Notes to Financial Statements
Year Ended June 30, 2018

3. CAPITAL ASSETS...continued

<u>Business -Type Activities</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Transfers/ Disposals/ Adjustments</u>	<u>Balance June 30,2018</u>
Buildings	\$ 20,383,318	\$ -	\$ -	\$ 20,383,318
Improvements	1,297,849	24,000	-	1,321,849
Equipment	87,191	-	-	87,191
Furniture and fixtures	<u>171,464</u>	<u>3,206</u>	-	<u>174,670</u>
	<u>21,939,822</u>	<u>27,206</u>	-	<u>21,967,028</u>
Less - accumulated depreciation:				
Building	(14,672,929)	(507,392)	-	(15,180,321)
Improvement	(834,446)	(106,318)	-	(940,764)
Equipment	(86,459)	(321)	-	(86,780)
Furniture and fixtures	<u>(152,769)</u>	<u>(3,491)</u>	-	<u>(156,260)</u>
	<u>(15,746,603)</u>	<u>(617,522)</u>	-	<u>(16,364,125)</u>
Capital assets - net	<u>\$ 6,193,219</u>	<u>\$ (590,316)</u>	<u>\$ -</u>	<u>\$ 5,602,903</u>

4. DEFINED CONTRIBUTION PLANS

MassTech has adopted a simplified employee pension plan and a matching contribution 401(a) plan, which are administered by Vanguard and TIAA-CREF, respectively.

Employees of MassTech do not participate in social security. Under the simplified pension plan, MassTech makes a monthly contribution equal to 15% of each employee's eligible wages (as defined by the plan) to their retirement account. For the year ended June 30, 2018 pension expense was \$839,923.

Under the 401(a) plan, MassTech matches 50% of employees' contributions into their defined contribution plan with a maximum MassTech contribution of 3% of the employee's salary. In accordance with the plan, these contributions will "vest" at a rate of 25% for every full year an employee has been employed at MassTech. For the year ended June 30, 2018, MassTech's total contributions were \$128,711 of which \$107,553 was vested. These contributions were based on employee contributions of \$429,187.

5. LEASES

MassTech leases its Integrated Circuit Fabrication Facility ("ICFF") to an unrelated party in accordance with an operating lease (the "Lease") which will expire in April 2023 based upon an extension executed during fiscal year 2012. The Lease requires monthly base rent, as defined, payable in advance. Estimated future minimum lease payments to be received by MassTech as of June 30 are as follows:

<u>Fiscal Years</u>	<u>Amount</u>
2019	\$ 640,000
2020	637,000
2021	637,000
2022	632,500
2023	<u>478,100</u>
	<u>\$ 3,024,600</u>

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Notes to Financial Statements
Year Ended June 30, 2018

5. LEASES...continued

MassTech continues to incur certain operating costs related to the ICFF. Under the terms of the Lease, the lessee has agreed to reimburse MassTech for these costs. For the year ended June 30, 2018, these reimbursements are included in operating lease revenue and amounted to \$56,589.

In accordance with the Lease, the lessee deposited \$125,000 with MassTech. These funds are included in other liabilities in the accompanying statement of net position for the proprietary fund at June 30, 2018.

MassTech's management monitors the financial stability of its lessee and believes that future minimum Lease payments will be received in accordance with the terms of the Lease.

MassTech leases office space at Two Center Plaza in Boston from an unrelated third party through an operating lease which will expire in September 2019. The Boston lease requires monthly rent payments and the estimated rent payments to be paid by MassTech as of June 30 are as follows:

<u>Fiscal Years</u>	<u>Amount</u>
2019	\$ 334,840
2020	<u>84,272</u>
	<u>\$ 419,112</u>

In accordance with the Boston Lease, MassTech deposited \$51,867 with Lessor. These funds are included in prepaid and other assets in the accompanying statement of net position at June 30, 2018.

6. RISK MANAGEMENT

MassTech is exposed to various risks of loss related to general property and casualty losses. Accordingly, MassTech's property and equipment are covered by commercial package insurance policies. In September 2017, MassTech added a new policy for the MassBroadband 123 network fiber and equipment.

MassTech also carries umbrella coverage for general, employee benefits, automobile, and employee liability up to \$10,000,000 in excess of its base coverage, as defined.

Officers' and directors' insurance provides coverage of \$15,000,000 per claim in the aggregate.

MassTech carries a crime policy that provides coverage of \$5,000,000 for employee theft and forgery and \$3,000,000 for computer fraud and funds transfer coverage.

MassTech has a \$4,000,000 surety bond as required by the U.S. District Court for Massachusetts as a condition for the preliminary injunction issued on May 18, 2017 related to its dispute with Axia NetMedia Corporation.

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Notes to Financial Statements
Year Ended June 30, 2018

7. INTERFUND ACTIVITY

MassTech reports interfund activity between the governmental and business-type activities which primarily consist of accounts receivable and accounts payable transactions between the funds. The balance of the activity presented in the table agrees with the sum of internal balances presented in the governmental and proprietary fund financial statements.

Internal balances between funds at June 30, 2018, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Campus operations	<u>\$ 338,453.</u>

Interfund transfers activity for allocated office related costs totaled \$149,088 through June 30, 2018.

Interfund transfers activity for the purpose of covering certain expenses and obligations for the MBI totaled \$3,586,323 through June 30, 2018.

8. RESTATEMENT PRIOR PERIOD ADJUSTMENT

The beginning fund balance of the general fund as of July 1, 2017, was restated to increase the fund balance and decrease the accrued liabilities balance as long-term liabilities relating to compensated absences were erroneously included in the general fund as of June 30, 2017. The effect on the net change in fund balance is an increase of \$677,187.

Additionally, amounts between general fund balances and governmental activities net position previously reported were reclassified in order to conform with accounting principles generally accepted in the United States of America. Accordingly, the components of governmental activities net position and general fund balance as of July 1, 2017 have been restated. The adjustments are summarized in the following tables:

	<u>Fund Balance July 1, 2017 (as reported)</u>	<u>Reclassification</u>	<u>Remove Long-Term Liabilities</u>	<u>Fund Balance July 1, 2017 (as restated)</u>
General Fund:				
Non-spendable	\$ 457,405	\$ -	\$ -	\$ 457,405
Committed	8,157,100	4,660,679	-	12,817,779
Restricted	<u>20,574,600</u>	<u>(4,660,679)</u>	<u>677,187</u>	<u>16,591,108</u>
	<u>\$ 29,189,105</u>	<u>\$ -</u>	<u>\$ 677,187</u>	<u>\$ 29,866,292</u>
			<u>2017 (as reported)</u>	<u>2017 (as restated)</u>
Governmental activities net position:				
Restricted for:				
Economic Development Fund			\$ 4,660,679	\$ -
Unrestricted			-	4,660,679

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Notes to Financial Statements
Year Ended June 30, 2018

9. NONCURRENT LIABILITIES

Changes in accrued compensated absences for the year ended June 30, 2018 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Claims and judgments	\$ 4,030,644	\$ -	\$ -	\$ 4,030,644
Accrued compensated Absences	<u>677,187</u>	<u>130,888</u>	<u>(231,332)</u>	<u>576,743</u>
	<u>\$ 4,707,831</u>	<u>\$ 130,888</u>	<u>\$ (231,332)</u>	<u>\$ 4,607,387</u>

10. CONTINGENCIES

Design-Build Dispute

On March 21, 2014, G4S Technology LLC ("G4S"), the design-builder of the *MassBroadband 123 network*, submitted to MassTech a Request for Equitable Adjustment ("REA") seeking an increase in the contract price to which it had originally agreed in its design-build contract with MassTech (the "Contract"), and a time extension. After investigating the claim, MassTech rejected the request, and notified G4S that it owed MassTech liquidated damages and indemnity payments on account of G4S's failure to meet contractually mandated milestones, as well as compensation for additional costs incurred by MassTech as a result of contractual breaches by G4S, including, but not limited to, G4S's failure to perform required tasks in a manner consistent with contractual standards. On June 18, 2014, July 17, 2014, and August 15, 2014, MassTech notified G4S that it would be withholding these amounts from its contract balance payments to G4S pursuant to its set-off rights under the Contract. On July 10, 2014, the parties participated in a mediation session to discuss their respective outstanding claims which did not result in a resolution of those claims.

Thereafter, by letter dated September 10, 2014, G4S submitted an amended version of its REA to MassTech, and on September 22, 2014, G4S commenced an action in the Massachusetts Superior Court for Suffolk County, entitled *G4S Technology LLC v. Massachusetts Technology Park Corporation*, Civil Action No. 2014 02998 (the "G4S Action"), seeking to recover from MassTech the amount of the contract increase it sought in the amended REA, plus the contract retainage amounts withheld from G4S by MassTech in June, July and August of 2014 pursuant to its set-off rights under the Contract. On March 31, 2015, MassTech filed a response to G4S's complaint in the Action denying any liability to G4S, asserting various affirmative defenses to G4S's claims in the Action, and presenting counterclaims against G4S for, inter alia, breach of contract, fraud, and violation of M.G.L. c. 93A.

On September 15, 2015, based on evidence it obtained in discovery in the G4S Action, MassTech served G4S with a motion for summary judgment seeking dismissal of all of G4S's claims in the G4S Action on the asserted grounds that G4S intentionally breached the Contract by repeatedly failing to timely pay its subcontractors as required by the Contract, and by falsely certifying to MassTech, in connection with various requests for payment that G4S submitted to MassTech under the Contract, that G4S had paid all its subcontractors all amounts due them at the time the certifications were made. On September 17, 2015, MassTech referred the matter to the Department of Commerce Inspector General's Office as required by Section B.7 of the American Recovery and Reinvestment Act of 2009 ("Referral of False Claims to Department of Commerce Inspector General"), incorporated by reference into the federal grant award under which MassTech received some of the funds it paid to G4S under the Contract.

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Notes to Financial Statements
Year Ended June 30, 2018

10. CONTINGENCIES...continued

On March 29, 2016, the Court granted MassTech's aforesaid motion for summary judgment and dismissed G4S's \$14 million of claims against MassTech on grounds of intentional breach. Thereafter, in the fall of 2016, MassTech filed a motion seeking summary judgment on its counterclaims for fraud and violation of c. 93A against G4S in connection with the aforesaid false certifications. Those claims were dismissed on summary judgment in early 2017, and MassTech voluntarily dismissed its remaining counterclaims on condition that they could be reasserted if the Court's rulings were altered on appeal. The Court then entered a final judgment in favor of MassTech dismissing all of G4S's claims, and the fraud and c. 93A counterclaims claims brought by MassTech, with prejudice.

Thereafter, in 2017, G4S appealed that final judgment to the Massachusetts Supreme Judicial Court, which affirmed the dismissal of all of G4S's breach of contract claims against MassTech, but reversed and remanded G4S's quantum meruit claim, and MassTech's fraud counterclaim, for further consideration by the trial Court, where they are now pending. The case is titled G4S Technology LLC v. Massachusetts Technology Park Corporation, 479 Mass. 721 (2018).

Network Operator Dispute

In early 2014, Axia NGNetworks USA, Inc. ("Axia"), the company that has contracted with MassTech to serve as the Network Operator of the MassBroadband123 fiber optic network (the "Network"), made claims, in its discussions and correspondence with MassTech, that it should receive additional compensation from MassTech on account of a variety of factors, including but not limited to the timing of the delivery of the Network to it. After investigating those claims, MassTech determined that Axia was not entitled to any additional compensation, and in several important respects was breaching its agreement with MassTech (the "Network Operator Agreement" or "Agreement") by, *inter alia*, failing to meet its sales and marketing obligations under that Agreement. In mid-2014, Axia advised MassTech that it intended to pursue its claims through the dispute resolution process outlined in the Agreement, which provides for negotiation and arbitration of most claims, and in certain limited circumstances, court litigation. At the same time, MassTech advised Axia that it would pursue its claims under the Agreement through that same process. On July 10, 2014, representatives of MassTech and Axia met to discuss the parties' respective claims, but a resolution of those claims was not achieved. Thereafter, on July 18, 2014, Axia informed MassTech that pending the outcome of the parties' dispute, it would be withholding all fees and payments to or on behalf of MassTech that it was required to make under the Agreement. In response, on July 29, 2014, MassTech commenced an action in the Massachusetts Superior Court for Suffolk County, entitled Massachusetts Technology Park Corporation v. Axia NG Networks, USA, Inc., Civil Action No. 2014 02410 (the "Axia Action"), seeking to enforce the arbitration provisions in the Agreement, require Axia to continue to performing its obligations under the Agreement, prevent Axia from withholding payment of the fees and payments it was required to make to or on behalf of MassTech under the Agreement, and allow MassTech to recover its litigation costs and damages. Along with its complaint in the Axia Action, MassTech filed a motion for temporary restraining order and preliminary injunction seeking an order from the Court immediately precluding Axia from withholding payment of the fees and payments in question, and requiring it to continue to perform those and all of its other obligations under the Agreement. That motion was granted on August 1, 2014, and at that time the court issued a temporary restraining order precluding Axia from withholding payment of the fees and payments in question, and compelling it to continue to perform those and its other obligations under the Agreement. Ten days later, on August 11, 2014, the Court held a further hearing on the matter, and converted the temporary restraining order into a preliminary injunction with the same terms, which remained in effect until on March 22, 2017, when Axia filed for Chapter 11 bankruptcy protection.

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Notes to Financial Statements
Year Ended June 30, 2018

10. CONTINGENCIES...continued

On March 22, 2017, Axia, which by then had changed its name to KCST USA, Inc. ("KCST"), filed a Chapter 11 bankruptcy case, entitled In re KCST, USA, Inc., Case No. 17-40501 (U.S. Bankruptcy Court for the District of Massachusetts) (the "Bankruptcy Case"), in which it asserted its aforesaid claims against MassTech, in the amount of \$18 million, in an Adversary Proceeding. MassTech, in turn, submitted its own Proof of Claim against KCST in the Bankruptcy Case and moved to compel arbitration of both sets of claims. The Bankruptcy Court granted that motion in December 2017, and the arbitration (the "KCST Arbitration") was commenced January 2018.

Network Operator Dispute...continued

During that same time period, after KCST filed the Bankruptcy Case on March 22, 2017, MassTech called on a Guaranty of KCST's payment and performance obligations under the Network Operator Agreement (the "Guaranty") that had been provided to MassTech six (6) years earlier, on February 25, 2011, by KCST's indirect parent company Axia NetMedia Corporation (the "Axia NetMedia"). Instead of acknowledging its obligations under the Guaranty, Axia NetMedia, on March 22, 2017, filed a declaratory judgment action against MassTech in the U.S. District Court for the District of Massachusetts, entitled Axia NetMedia Corporation v. Massachusetts Tech. Park Corporation d/b/a Massachusetts Technology Collaborative, Case No. 4:17-cv-10482 (D. Mass.), seeking a declaratory judgment that it had no obligations under the Guaranty, based in part of the pendency of KCST's claims against MassTech under the Network Operator Agreement, and refused to perform the Guaranty.

In response, MassTech moved to compel arbitration of Axia NetMedia's claim, and requested that the District Court issue a temporary restraining order ("TRO") and preliminary injunction ("PI") compelling Axia NetMedia to perform its obligations under the Guaranty while its claims were being resolved pursuant to a "Continued Performance" provision in the Guaranty. On April 24, 2017, the District Court granted the requested TRO, and on May 18, 2017, the District Court also issued the requested PI, thereby compelling Axia NetMedia to perform its obligations under the Guaranty, which is capped at \$4 Million, during the pendency of the parties' dispute. At the same time, the District Court denied MassTech's Motion to Compel Arbitration without prejudice on grounds that it was premature. On June 14, 2017, Axia NetMedia filed a Notice of Appeal of the District Court's May 18, 2017 PI, and its subsequent Order, dated June 9, 2017, compelling it to turn over certain access codes to the Network to MassTech, to the United States Court of Appeals for the First Circuit ("First Circuit"). On April 25, 2018, the First Circuit affirmed all of the District Court's orders with the caveat that the District Court should amend its PI order to make clear that Axia NetMedia's obligations under the PI would terminate once it had properly expended \$4 million in complying with the Guaranty. The case is titled Axia NetMedia Corp. v. Mass. Tech. Park Corp., 889 F.3d 1 (1st Cir. 2018).

While that appeal was pending, MassTech renewed its Motion to Compel Arbitration in the District Court on June 29, 2017, and the District Court granted that motion on August 29, 2017. On July 18, 2017, MassTech filed a Demand for Arbitration of Axia NetMedia's claims, and of its own claim against Axia NetMedia for bad faith breach of the Guaranty, with the American Arbitration Association ("AAA").

In January 2018, that arbitration was consolidated with the arbitration of related claims asserted by KCST and MassTech against each other in the KCST Arbitration, and this consolidated Axia NetMedia-KCST-MassTech arbitration was commenced in February 2018.

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(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2018

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 21, 2018.

In the G4S matter, the trial Court has extended the discovery period (fact gathering) until April 2019. There has been no further discovery in the case since the SJC decision, and no activity other than a status conference in August 2018. On December 11, 2018, however, the Massachusetts Attorney General's Office filed an Assurance of Discontinuance signed by G4S in the Massachusetts Superior Court describing a \$430,000 civil penalty paid by G4S on account of the false certifications it submitted to MassTech on the MassBroadband 123 network design-build project, and on a project for the Massachusetts Department of Transportation.

In the Axia matter, the consolidated Axia NetMedia-KCST-MassTech arbitration that was commenced in February 2018 resulted in a decision ("Final Award") which, as modified, required MassTech to refund approximately \$4.09 million to KCST and \$4.3 million to Axia NetMedia for losses they each had incurred under the original Network Operator Agreement and the Guaranty. Those payments, which included all interest due, were made to KCST and Axia on December 17, 2018. The Final Award also contained provisions stating that it was "reforming" the Network Operator Agreement prospectively so as to include, among other things, a revised network operator fee structure; a change in certain third party contract payment obligations; a requirement that MassTech subsidize network losses through an offset of future network operator fees; a right on the part of MassTech to recoup such subsidy amounts from the network operator through future network profits, and elimination of the existing guarantee of the contract by KCST's parent Axia. MassTech is still evaluating the impact of these portions of the Final Award, and as to some has not yet determined whether it will challenge them in court.

In the Bankruptcy Case, the Court has ordered KCST to file either a motion to assume or reject the Network Operator Agreement, or a Chapter 11 Plan of Reorganization, disclosure statement, and motion to approve disclosure statement that will propose assumption or rejection of the Network Operator Agreement, on or before January 31, 2019.

**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***

Independent Auditor's Report

To the Board of Directors of
Massachusetts Technology Park Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities and each major fund of the Massachusetts Technology Park Corporation (the "Organization"), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Organization's basic financial statements, and have issued our report thereon dated December 21, 2018. Our report included emphasis of matter paragraphs for the correction of errors related to long-term liabilities that should not have been included in the general fund and the classification between fund balance categories, for the correction of an error related to classification between governmental activities net position categories and for management's evaluation of an \$8.2 million payment resulting from litigation and management's plans to mitigate this matter.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the attached schedule of findings and responses as item IC 2018-01, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Organization's Response to Findings

The Organization's response to the finding identified in our audit is described in the attached schedule of findings and responses. The Organization'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.

RSM US LLP

Boston, Massachusetts
December 21, 2018

Schedule of Findings and Responses

IC 2018-01 — Financial Reporting

Criteria: Internal control policies and procedures should provide reasonable assurance regarding the reliability of the financial reporting process, including the accurate recording and disclosure of accounting transactions.

Condition: Material accounting adjustments were made to the financial statements to comply with generally accepted accounting principles. This included an adjustment to the prior period financial statements in order to properly report the general fund balance and reclassification entries relating to the governmental fund net position and general fund balance.

Context: The condition relates to non-routine and unusual transactions.

Cause: Established controls requiring the reconciliation and review of account balances failed to identify the error noted.

Effect: The July 1, 2017 fund balance for the general fund was restated for the correction of errors related to long-term liabilities that should not have been included in the general fund and the classification between fund balance categories. As a result, July 1, 2017 fund balance increased by \$677,187. Further, the July 1, 2017 net position for governmental activities was restated for the correction of an error related to classification between the restricted and unrestricted net position categories.

Recommendation: We recommend that management review the design of established controls and implement the changes necessary to allow for the accurate recording and disclosure of accounting transactions on an ongoing basis.

Views of Responsible Officials and Planned Corrective Action: Management will review the established internal controls, particularly those related to reconciliations and classification of account balances, and shall make any necessary changes to ensure accurate recording and financial reporting.