

Massachusetts Technology Park Corporation

(A Component Unit of the
Commonwealth of Massachusetts)

Financial Statements and
Required Supplementary Information

Year Ended June 30, 2019

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

Financial Statements and Required Supplementary Information
Year Ended June 30, 2019

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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, 2019, 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, 2019, 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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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 14 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 2, 2019, 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 2, 2019

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2019 and 2018

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, 2019 and 2018. 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 ("MassTech 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, cybersecurity, and other emerging sectors such as robotics and the Internet of Things (IoT). Over its 37 year history, MassTech has managed numerous complex projects, overseeing more than \$619 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, IOT, advanced manufacturing, and cybersecurity.

The Innovation Institute engages in grant activities; manages projects and provides direct services for civic, industry and nonprofit organizations. 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;
- Analyzes the Massachusetts innovation economy;
- Partners with and invests in novel talent development initiatives such as internship support and 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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Years Ended June 30, 2019 and 2018

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 including support of targeted cluster growth opportunities in the Tech Sector; facilitation of the Massachusetts Tech Hub Collaborative, analysis of opportunities for growth in technology clusters such as robotics, IoT, Artificial Intelligence, FinTECH, and autonomous vehicles; and convening key stakeholders in promising clusters to develop consensus around targeted action agendas.

The MassCyberCenter was launched in September 2017 with a vision to enhance opportunities for the Massachusetts cybersecurity ecosystem to compete as the national cybersecurity leader while strengthening the 'cyber resiliency' of the Commonwealth's municipalities, public infrastructure, and private companies. The second annual Cybersecurity Forum was held in September of 2018 and brought together public and private sectors leaders to focus on expanding cybersecurity leadership, business growth, talent and workforce, and advancing technology in the global cybersecurity arena. The forum led to the convening of a new group, called 'Cyber Resilient Massachusetts', which brought together public and private sector leaders to identify ways the Commonwealth's innovative technology firms can help Massachusetts municipalities and critical institutions protect sensitive data, increase cybersecurity awareness, and respond to emerging threats.

As a mechanism to drive growth in industry clusters, the Innovation Institute administers a \$65 million Collaborative Research Matching Grant Program which was created by the Massachusetts Legislature and recapitalized in 2016 as part of the economic development bill, "An Act Relative to Job Creation and Workforce Development". 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.

Two other programs of the Innovation Institute include the MassTech Intern Partnership and the Massachusetts Innovation Mentoring Initiative. The MassTech 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. In October 2018, the Innovation Institute made four grant awards to support select organizations in expanding and enhancing their programs and activities to reach more people, target diverse communities, and increase their impact.

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Innovation Institute at MassTech....continued

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 Manufacturing USA, a national network of federally sponsored, collaborative communities, each with the mission of securing the future of their respective technologies. The M2I2 is a state-sponsored collaboration of manufacturing innovation institutes in Massachusetts that are affiliated with the Manufacturing USA 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. During fiscal year 2019, more than \$10 million in grants were awarded to nine grantees bringing the total program awards to over \$50 million to date.

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. Chapter 224 of the Acts of 2012 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. In 2016, MeHI's mission was further expanded through enacted state economic development legislation which charged MeHI with supporting the growth of a digital health industry sector within the Commonwealth.

MeHI also serves as the implementing agency of the Massachusetts Digital Health Initiative, which was launched in 2016 to position Massachusetts as the leading global ecosystem for digital health innovation. 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. Massachusetts is already home to more than 350 digital health companies and aims to increase the growth of these firms. MeHI connects policymakers, healthcare experts, physicians, and business leaders, helping to break down the barriers to widespread integration of these advanced technologies.

MeHI's Medicaid Services team provides enrollment and validation services relating to the Medicaid Incentive Program. MeHI also provides HIway Adoption and Outreach Services intended to provide development and delivery of services to promote Health Information Exchange adoption and utilization among healthcare providers under agreements with the Commonwealth of Massachusetts Executive Office of Health and Human Services.

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Years Ended June 30, 2019 and 2018

Massachusetts eHealth Institute.....continued

In addition to the above services provided under contract with the Executive Office of Health and Human Services, MeHI's program focus in fiscal year 2019 was on the growth of the Commonwealth's digital health ecosystem and supporting innovation in aging and caregiving.

As the implementing agency for the Massachusetts Digital Health Initiative, MeHI's activities in FY19 included:

- Awarding \$250,000 in additional grant funding for the Commonwealth's two primary digital health accelerators: MassChallenge HealthTech in Boston and TechSpring at Baystate Health in Springfield. With this funding, the two accelerators provided targeted support for over 40 digital health startups, helping them grow and compete;
- Owning, maintaining, and enhancing the MassDigitalHealth.org web portal, including creation of the only statewide digital health job board in the United States with over 330 companies and more than 1,700 open digital health jobs;
- Awarding \$80,000 to sponsor the first HealthTech newsletter developed by STAT, the national healthcare publication, and run it for a year to promote the Mass Digital Health Initiative. The new HealthTech newsletter has national and international reach, distributed weekly to a growing audience of thousands of digital health and healthcare stakeholders;
- Focus on supporting innovation in aging and caregiving in alignment with one of the Baker-Polito Administration's priorities. This included awarding \$100,000 in seed funding to help establish AGENCY@CIC, a co-working innovation hub focused on supporting entrepreneurs in the aging cluster;
- Launching the Digital Health Sandbox Grant Program. This grant program supports Massachusetts digital health companies in accessing testing and validation opportunities at Massachusetts sandboxes. The program launched with PracticePoint at Worcester Polytechnic Institute and will expand to include additional sandboxes in FY20.

To coordinate a shared strategy across the Baker-Polito Administration and private sector stakeholders around the direction of the Mass Digital Health Initiative, MassTech continued to provide support to the Governor's Digital Health Advisory Council, including the re-launch of a communications working group consisting of marketing and public relations staff from top hospitals, accelerators, and digital health companies.

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"). In fiscal year 2018, an additional \$45 million in bond authorization was approved by the Commonwealth. The additional funding was authorized to ensure that all Last Mile towns will have a funded solution, including access to a contingency fund for possible make ready cost overages for municipally-owned, fiber-to-the-home projects, as well as funds for required investments in MBI's middle mile broadband network, *MassBroadband 123*.

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Massachusetts Broadband Institute...continued

During fiscal year 2019, MBI continued to identify solutions and award funds for the remaining unserved towns. As of the end of the fiscal year, all but three towns have been awarded funds for a broadband solution. Of these three towns, two are seeking MBI funds to expand the coverage of an existing privately-owned broadband network. That leaves one remaining town that does not yet have a path forward and MBI is working on a potential solution for this last town.

As of the end of the fiscal year, of the original 53 last mile towns (including underserved towns), 15 are completed and have fully operational broadband networks and 10 others are partially lit, with premises connected as construction and hooks ups are completed on a rolling basis.

The Last Mile Infrastructure Grant Program, launched by the Executive Office of Housing and Economic Development (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 and approximately \$4.8 million from the additional funding authorized in 2018 for Make Ready-related overages.

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 obtained a loan from its parent company, Axia Net Media Corporation ("Axia"), to fund certain network related costs. On January 31, 2019, KCST submitted a Plan of Reorganization. In early June 2019, KCST filed a First Amended Plan of Reorganization, as Modified, which was approved by the Bankruptcy Court on June 28, 2019. The Bankruptcy Court's Confirmation Order affirms KCST's acceptance of the revised Network Operator Agreement, which terminates in August 2023. Additional discussion of the legal proceedings involving KCST and Axia is provided in Footnotes 9 and 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. 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, 2019 and 2018

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 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 2019 and 2018.

Massachusetts Technology Park Corporation
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Management's Discussion and Analysis (Unaudited)
Summary of Statement of Net Position
June 30, 2019 and 2018

	2019			2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
ASSETS						
Noncurrent assets	\$ 110,723	\$ -	\$ 110,723	\$ -	\$ -	\$ -
Other noncapital assets	26,825,827	6,344,249	33,170,076	40,352,851	13,713,131	54,065,982
Capital assets (net of accumulated depreciation)	53,267,054	4,984,783	58,251,837	58,835,579	5,602,903	64,438,482
Total assets	80,203,604	11,329,032	91,532,636	99,188,430	19,316,034	118,504,464
LIABILITIES						
Noncurrent liabilities	551,082	132,622	683,704	4,617,653	125,000	4,742,653
Other liabilities	6,622,489	373,249	6,995,738	21,229,695	354,447	21,584,142
Total liabilities	7,173,571	505,871	7,679,442	25,847,348	479,447	26,326,795
NET POSITION						
Net investment in capital assets	\$ 53,267,054	\$ 4,984,783	\$ 58,251,837	\$ 58,835,579	\$ 5,602,903	\$ 64,438,482
Restricted for:						
Massachusetts e-Health Institute	10,511,650	-	10,511,650	11,517,285	-	11,517,285
Innovation Institute	7,246,741	-	7,246,741	5,355,478	-	5,355,478
Massachusetts Broadband Institute	2,001,529	-	2,001,529	1,999,133	-	1,999,133
Campus Development/other corporate purposes	-	2,601,538	2,601,538	-	2,601,538	2,601,538
Unrestricted	3,059	3,236,840	3,239,899	(4,366,393)	10,632,146	6,265,753
Total net position	\$ 73,030,033	\$ 10,823,161	\$ 83,853,194	\$ 73,341,082	\$ 18,836,587	\$ 92,177,669

Massachusetts Technology Park Corporation

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Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2019 and 2018

Assets

MassTech's total assets were approximately \$91.5 million as of June 30, 2019, a decrease of approximately \$27.0 million from the prior year.

MassTech's investment in capital assets for its governmental and business-type activities as of June 30, 2019 amounts to approximately \$58.3 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 \$6.2 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 \$7.7 million as of June 30, 2019, a decrease of approximately \$18.6 million from the prior year. Of this change, approximately \$16.4 million relates to a decrease in accrued expenses and accounts payable (\$3.1 million in Innovation Institute, primarily related to less R&D Matching Grant Fund financial assistance expenses; \$12.6 million in MBI, related to payment in FY19 of prior years' accruals of \$8.2 million for the KCST-Axia Arbitration Award, \$4.0 million for the G4S settlement, as well as other Last Mile grants payments; and \$0.7 million in MeHI, related to payment in FY19 of prior year Connected Communities grants). Unearned Revenue also decreased by \$2.2 million due to MBI and Innovation Institute grant expenses recognized and the associated revenue becoming earned in the fiscal year ending June 30, 2019.

MassTech has no long-term debt outstanding.

Net Position

Between fiscal years 2018 and 2019, the net position has decreased by approximately \$8.3 million to approximately \$83.9 million.

Net investment in capital assets represents approximately 69.5% of net position as of June 30, 2019. Of the remaining approximately 30.5% of MassTech's net position at June 30, 2019, approximately 8.6% is attributable to the Innovation Institute, approximately 12.5% to MEHI, approximately 2.4% to MBI, approximately 3.1% to Campus Operations and other corporate purposes and the remaining approximately 3.9% is classified as unrestricted.

Unrestricted net position of the governmental activities increased by \$4.4 million compared to prior year, primarily as a result of funds transferred from the business-type activities to support a portion of the KCST-Axia Arbitration Award.

Approximately \$58.3 million of net position is invested in capital assets. Of this amount, \$53.1 million is related to the MassBroadband 123 network.

Restricted net position of Massachusetts e-Health Institute decreased by approximately \$1.0 million as a result of the net impact of approximately \$3.8 million in revenues, primarily from the Commonwealth, offset by operating expenses, financial assistance expenses, transfers and capital expenditures of approximately \$4.8 million.

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Net Position...continued

Restricted net position of the Innovation Institute increased by approximately \$1.9 million as a result of the net impact of approximately \$9.4 million in revenues, primarily from the Commonwealth, offset by operating expenses, financial assistance expenses, transfers and capital expenditures of approximately \$7.5 million.

Restricted net position of the MBI remained relatively flat as a result of the net impact of approximately \$7.8 million in revenues, primarily from the Commonwealth, offset by operating and financial assistance expenses of approximately \$7.8 million.

The net position of the business-type activities was approximately \$10.8 million as of June 30, 2019, a decrease of approximately \$8 million from the prior year-end. This decrease is primarily a result of funds transferred to the governmental activities to support a portion of the KCST-Axia Arbitration award, the G4S settlement and other MBI-related expenses not covered by Bond Funds. 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 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 \$3.2 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 2019 and 2018:

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)
 Summary of Statement of Activities
 Years Ended June 30, 2019 and 2018

	2019			2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenue:						
State funding	\$ 20,111,907	\$ -	\$ 20,111,907	\$ 16,999,406	\$ -	\$ 16,999,406
Outsourced corporate services	91,156	-	91,156	106,344	-	106,344
Other revenue	253,431	-	253,431	1,434,470	-	1,434,470
Campus operations	-	869,631	869,631	-	853,542	853,542
Total revenue	<u>20,456,494</u>	<u>869,631</u>	<u>21,326,125</u>	<u>18,540,220</u>	<u>853,542</u>	<u>19,393,762</u>
Expenses:						
Innovation Institute	7,240,615	-	7,240,615	8,948,760	-	8,948,760
Massachusetts e-Health Institute	4,645,463	-	4,645,463	6,826,446	-	6,826,446
Massachusetts Broadband Institute	16,732,640	-	16,732,640	24,430,248	-	24,430,248
Economic Development	846,355	-	846,355	934,537	-	934,537
Outsourced corporate services	99,386	-	99,386	103,318	-	103,318
Campus operations	-	998,980	998,980	-	914,218	914,218
Total expenses	<u>29,564,459</u>	<u>998,980</u>	<u>30,563,439</u>	<u>41,243,309</u>	<u>914,218</u>	<u>42,157,527</u>
Net position	(9,107,965)	(129,349)	(9,237,314)	(22,703,089)	(60,676)	(22,763,765)
Transfers	8,110,354	(8,110,354)	-	3,586,323	(3,586,323)	-
Investment earnings	686,562	226,277	912,839	491,588	243,916	735,504
Change in net position	<u>(311,049)</u>	<u>(8,013,426)</u>	<u>(8,324,475)</u>	<u>(18,625,178)</u>	<u>(3,403,083)</u>	<u>(22,028,261)</u>
Net position - beginning of year	<u>73,341,082</u>	<u>18,836,587</u>	<u>92,177,669</u>	<u>91,966,260</u>	<u>22,239,670</u>	<u>114,205,930</u>
Net position - end of year	<u>\$ 73,030,033</u>	<u>\$ 10,823,161</u>	<u>\$ 83,853,194</u>	<u>\$ 73,341,082</u>	<u>\$ 18,836,587</u>	<u>\$ 92,177,669</u>

Massachusetts Technology Park Corporation

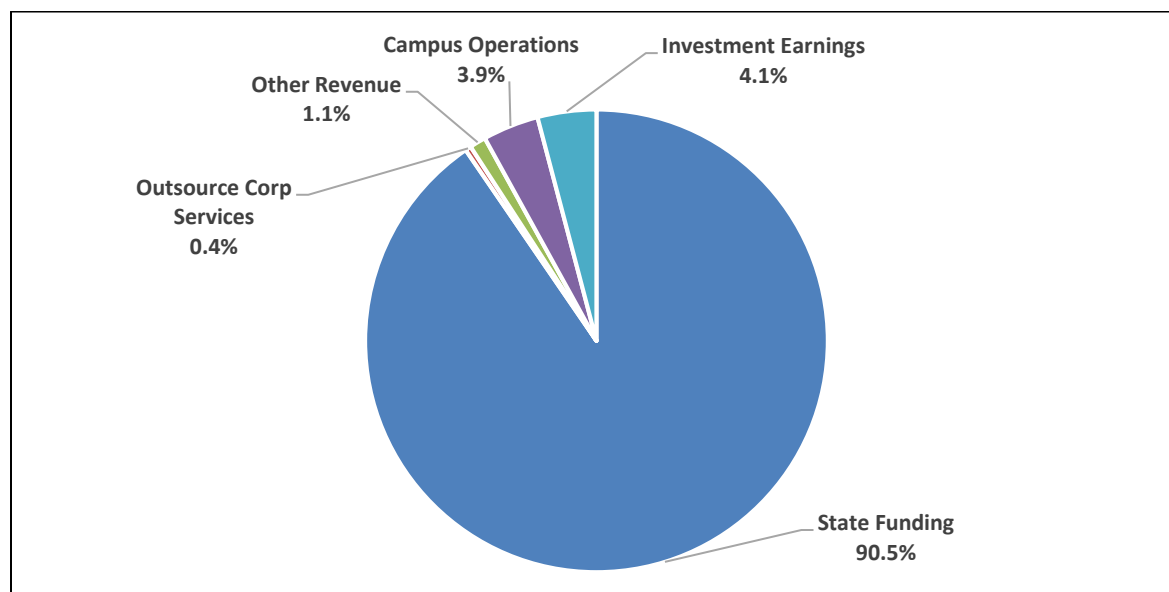
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Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2019 and 2018

Total governmental and business-type revenues, including investment earnings, were approximately \$22.2 million for the fiscal year ended on June 30, 2019, which was an increase of approximately \$2.1 million from the prior year. The change in revenue results from an increase of approximately \$3.1 million in state revenue, an increase in investment earnings of \$0.2 million, offset by a decrease in Network Operator revenue of \$1.2 million in the other revenue line item noted in the statement of activities. The state funding increased primarily due to increased funding for MeHI's HIway Outreach program, increased bond funding for the MBI Last Mile Program, increased appropriations for the Innovation Institute, offset by decreased bond funding for the R&D Matching Grant Fund program. Total expenses decreased by approximately \$11.6 million. MeHI's expenses decreased by approximately \$2.2 million, primarily as a result of a decrease in financial assistance expenses. MBI expenses decreased by approximately \$7.7 million, primarily as a result of the accrual of the KCST-Axia Arbitration Award which occurred in the prior year and a decrease in related legal expenses. The Innovation Institute's expenses decreased by approximately \$1.7 million, primarily as a result of decreased financial assistance expenses for the R&D Matching Grant Fund program. The Economic Development Fund's expenses decreased by approximately \$0.1 million, primarily due to reduced personnel related expenses. The Proprietary Fund's expenses increased by approximately \$0.1 million, primarily due to an increase in personnel related expenses.

RevenueMTC

The total revenues of MassTech for the fiscal year ended June 30, 2019, were \$22.2 million, including investment earnings. Total revenues break down by source as follows:



Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

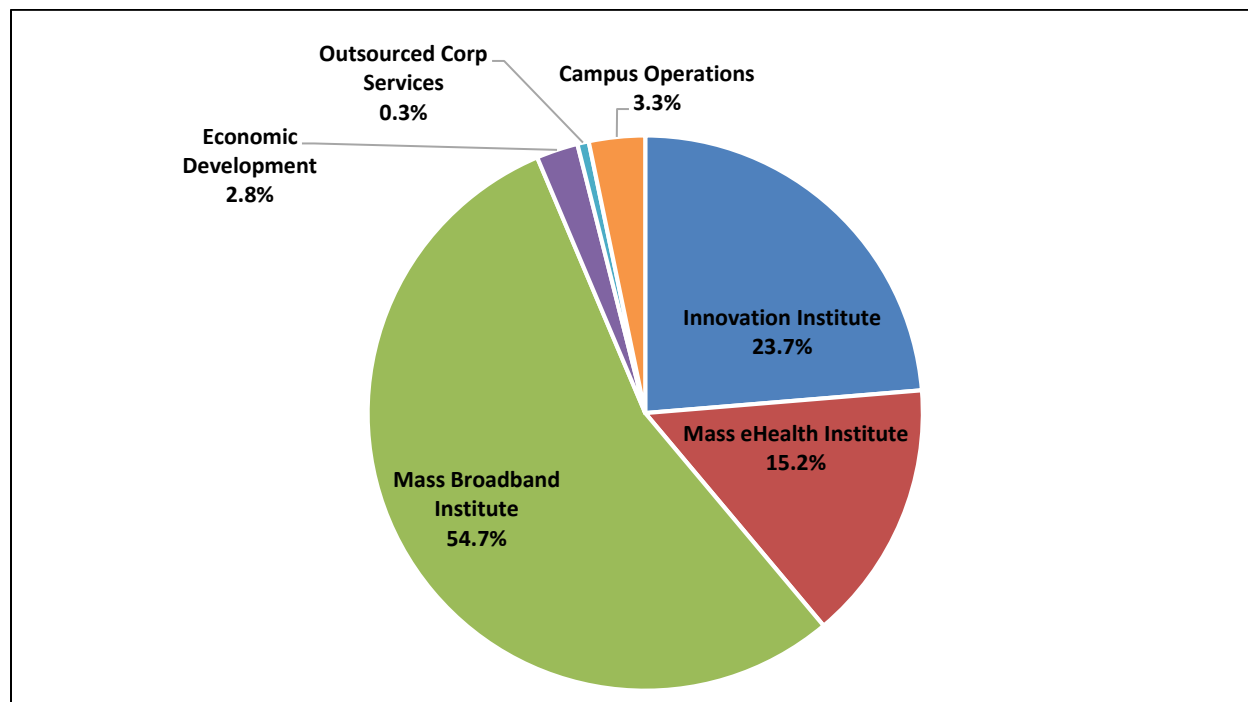
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2019 and 2018

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 2019 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 2019 were approximately \$30.6 million, which in addition to operating costs includes approximately \$11.8 million of financial assistance expenses, \$1.6 million of MBI Network Operations expenses and \$6.2 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 2019 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, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 3,735,072	\$ 3,735,072
Restricted cash and cash equivalents	14,380,419	2,601,538	16,981,957
Accounts receivable:			
Due from other funds	368,923	-	368,923
Other receivables	8,887,469	7,639	8,895,108
Prepaid expense and other assets	580,003	-	580,003
Cash committed for program awards:			
Cash and cash equivalents	2,719,736	-	2,719,736
Total noncapital assets	<u>26,936,550</u>	<u>6,344,249</u>	<u>33,280,799</u>
Capital assets (net of accumulated depreciation):			
Buildings	49,487	4,695,604	4,745,091
Improvements	25,371	273,698	299,069
Equipment	14,707	978	15,685
Furniture and fixtures	62,229	14,503	76,732
Fiber network	53,087,297	-	53,087,297
Work in Progress	27,963	-	27,963
Total capital assets	<u>53,267,054</u>	<u>4,984,783</u>	<u>58,251,837</u>
Total assets	<u>80,203,604</u>	<u>11,329,032</u>	<u>91,532,636</u>
LIABILITIES			
Accounts payable	355,814	-	355,814
Accrued expenses	6,540,584	4,326	6,544,910
Funding received in advance	65,205	-	65,205
Due to other funds	-	368,923	368,923
Other liabilities	211,968	132,622	344,590
Total liabilities	<u>7,173,571</u>	<u>505,871</u>	<u>7,679,442</u>
NET POSITION			
Net investment in capital assets	53,267,054	4,984,783	58,251,837
Restricted for:			
Massachusetts e-Health Institute	10,511,650	-	10,511,650
Innovation Institute	7,246,741	-	7,246,741
Massachusetts Broadband Institute	2,001,529	-	2,001,529
Campus development/other corporate purposes	-	2,601,538	2,601,538
Unrestricted	3,059	3,236,840	3,239,899
Total net position	<u>\$ 73,030,033</u>	<u>\$ 10,823,161</u>	<u>\$ 83,853,194</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, 2019

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	\$ 7,240,615	\$ 827,656	\$ 8,378,438	\$ 1,965,479	\$ -	\$ 1,965,479
Massachusetts e-Health Institute	4,645,463	3,598,081	-	(1,047,382)	-	(1,047,382)
Massachusetts Broadband Institute	16,732,640	153,531	7,407,632	(9,171,477)	-	(9,171,477)
Economic development	846,355	-	-	(846,355)	-	(846,355)
Outsourced corporate services	99,386	91,156	-	(8,230)	-	(8,230)
Total governmental activities	29,564,459	4,670,424	15,786,070	(9,107,965)	-	(9,107,965)
Business-type activities:						
Campus operations	998,980	869,631	-	-	(129,349)	(129,349)
Total business-type activities	998,980	869,631	-	-	(129,349)	(129,349)
Total	\$ 30,563,439	\$ 5,540,055	\$ 15,786,070	(9,107,965)	(129,349)	(9,237,314)
General Revenues:						
Investment earnings				686,562	226,277	912,839
Transfers						
				8,110,354	(8,110,354)	-
Change in net position				(311,049)	(8,013,426)	(8,324,475)
Net position - beginning of year				73,341,082	18,836,587	92,177,669
Net position - end of year				\$ 73,030,033	\$ 10,823,161	\$ 83,853,194

See notes to financial statements.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Balance Sheet - Governmental Fund

June 30, 2019

	<u>General Fund</u>
ASSETS	
Restricted cash and cash equivalents	\$ 14,380,419
Due from other funds	368,923
Other receivables	8,887,469
Prepaid expenses and other assets	469,279
Cash committed for program awards:	
Cash and cash equivalents	<u>2,719,736</u>
Total assets	<u><u>\$ 26,825,826</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 355,814
Accrued expenses	6,178,370
Funding received in advance	65,205
Other current liabilities	<u>23,099</u>
Total liabilities	<u>6,622,488</u>
Deferred inflows of resources:	
Unavailable revenue	<u>2,546,106</u>
Total deferred Inflows of resources	<u>2,546,106</u>
Fund balance:	
Non-Spendable	469,279
Committed	2,719,736
Restricted	<u>14,468,217</u>
Total fund balance	<u>17,657,232</u>
Total liabilities, deferred Inflows of resources, and fund balance	<u><u>\$ 26,825,826</u></u>
Total fund balance of governmental fund	\$ 17,657,232
Amounts reported for governmental funds above and those reported for governmental activities in the statement of net position are different because:	
Some assets are not available and payable in the current period and therefore are not reported in the fund statements	110,723
Some liabilities are not due and payable in the current period and therefore are not reported in the fund statements	(551,082)
Unavailable revenues met the criteria for revenue recognition in the statement of activities	2,546,106
Capital assets used in governmental activities are not financial resources and, therefore, not reported in funds (net of accumulated depreciation)	<u>53,267,054</u>
Net position of governmental activities	<u><u>\$ 73,030,033</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, 2019

	<u>General Fund</u>
Revenue:	
State funding	\$ 22,480,255
Investment earnings	686,562
Outsourced corporate services	91,156
Other revenue	322,683
Total revenues	<u>23,580,656</u>
Expenditures:	
Innovation Institute	7,209,882
Massachusetts e-Health Institute	4,627,862
Massachusetts Broadband Institute	23,557,294
Economic development	890,142
Outsourced corporate services	99,386
Total expenditures	<u>36,384,566</u>
Other financing sources:	
Transfers in	<u>8,110,354</u>
Net change in fund balance	(4,693,556)
Fund balance - beginning of year	<u>22,350,788</u>
Fund balance - end of year	<u>\$ 17,657,232</u>
Net change in fund balance - general fund	\$ (4,693,556)
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	2,546,106
Some revenues in the fund statements were recognized in the statement of activities in a prior year	(4,983,706)
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:	12,388,632
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>(5,568,525)</u>
Change in net position of governmental activities	<u>\$ (311,049)</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, 2019

	Campus Operations
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,735,072
Restricted cash and cash equivalents	2,601,538
Prepaid expenses and other current assets	7,639
Total current assets	6,344,249
Capital assets:	
Buildings	20,383,318
Improvements	1,321,849
Equipment	88,104
Furniture and fixtures	174,670
Total capital assets	21,967,941
Less - accumulated depreciation	(16,983,158)
Total capital assets - net	4,984,783
Total assets	\$ 11,329,032
LIABILITIES	
Current liabilities:	
Accounts payable	4,326
Due to other Funds	368,923
Total current liabilities	373,249
Noncurrent liabilities:	
Other liabilities	132,622
Total noncurrent liabilities	132,622
Total liabilities	505,871
NET POSITION	
Net investment in capital assets	4,984,783
Restricted for campus development/other purposes	2,601,538
Unrestricted	3,236,840
Total net position	10,823,161
Total liabilities and net position	\$ 11,329,032

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, 2019

	<u>Campus Operations</u>
Operating revenue:	
Operating lease revenue	\$ 726,723
Reimbursement from other funds	142,908
Total operating revenue	<u>869,631</u>
Operating expenses:	
Personnel and support services	379,947
Depreciation	619,033
Total expenses	<u>998,980</u>
Operating loss	(129,349)
Nonoperating revenue - interest income	226,277
Other financing sources:	
Transfers out	<u>(8,110,354)</u>
Change in net position	(8,013,426)
Total net position - beginning of year	<u>18,836,587</u>
Total net position - end of year	<u>\$ 10,823,161</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, 2019

	<u>Campus Operations</u>
Cash flows from operating activities:	
Receipts from leases and rentals	\$ 725,110
Reimbursement from other funds	142,909
Payroll and vendor payments	<u>(374,944)</u>
Net cash provided by operating activities	493,075
Cash flows used in noncapital financing activities - interfund activities	(8,079,885)
Cash flows used in capital and related financing activities - capital purchases	(913)
Cash flows from investing activities - interest received	<u>226,277</u>
Net decrease in cash and cash equivalents	(7,361,446)
Cash and cash equivalents-beginning of year	<u>13,698,056</u>
Cash and cash equivalents-end of year	<u><u>\$ 6,336,610</u></u>
Displayed as:	
Cash and cash equivalents	\$ 3,735,072
Restricted cash and cash equivalents	<u>2,601,538</u>
	<u><u>\$ 6,336,610</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (129,349)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	619,033
Changes in assets and liabilities:	
Accounts receivables	908
Accrued expenses	5,004
Other liabilities	<u>(2,521)</u>
Net cash provided by operating activities	<u><u>\$ 493,075</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, 2019

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 innovation 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, 2019

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 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.

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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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

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.

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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Investments...continued

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 2019 and 2018 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, 2019.

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.

Valuation of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2019

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, 2019, the government-wide statement of net position reports approximately \$58.3 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, 2019, the government-wide statement of net position reports approximately \$22.4 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, 2019, the government-wide statement of net position reports approximately \$3.2 million of unrestricted net position.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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.
- 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, MassTech 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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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. The adoption of this standard did not have a significant impact on MassTech's financial statements.

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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2019

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 2019, 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, 2019, bank deposits were \$488,097, 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 \$238,097 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.

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, 2019 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, 2019 MassTech's deposits with MMDT totaled \$23,315,360. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2019

2. CASH AND CASH EQUIVALENTS...continued

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, 2019:

Cash balance	\$ 121,405
Massachusetts Municipal Depository Trust ("MMDT") – Cash Portfolio	<u>23,315,360</u>
	<u>\$ 23,436,765</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.

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2019

3. CAPITAL ASSETS

Capital assets of MassTech at June 30, 2019 are summarized as follows:

	Governmental Activities	Business- Type Activities	Total
Buildings	\$ 91,803	\$ 20,383,318	\$ 20,475,121
Improvements	500,059	1,321,849	1,821,908
Equipment	792,674	88,104	880,778
Furniture and fixtures	503,634	174,670	678,304
Fiber network - outside plant	54,974,808	-	54,974,808
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	1,073,725	-	1,073,725
Work In Process	27,963	-	27,963
	<u>88,950,207</u>	<u>21,967,941</u>	<u>110,918,148</u>
Less - accumulated depreciation:			
Buildings	(42,316)	(15,687,714)	(15,730,030)
Improvements	(474,688)	(1,048,151)	(1,522,839)
Equipment	(777,967)	(87,126)	(865,093)
Furniture and fixtures	(441,405)	(160,167)	(601,572)
Fiber network - outside plant	(15,413,822)	-	(15,413,822)
Conduit	(1,689,044)	-	(1,689,044)
Poles	(48,385)	-	(48,385)
Indefeasible right of use	(1,019,897)	-	(1,019,897)
Points of interconnection	(7,569,874)	-	(7,569,874)
Community anchor institutions	(6,366,151)	-	(6,366,151)
Other equipment	(765,879)	-	(765,879)
Spares MB123	(1,073,725)	-	(1,073,725)
	<u>(35,683,153)</u>	<u>(16,983,158)</u>	<u>(52,666,311)</u>
Capital assets - net	<u>\$ 53,267,054</u>	<u>\$ 4,984,783</u>	<u>\$ 58,251,837</u>

Total depreciation expense for the year ended June 30, 2019, was \$6,227,654. Of that amount, \$5,608,621 (comprising approximately \$32,598, \$58,011, \$5,515,623 and \$2,389 in the Innovation Institute, MeHI, MBI and Economic Development Fund respectively) is reported in the governmental activities and \$619,033 is reported in the business-type activities.

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2019

3. CAPITAL ASSETS...continued

<u>Governmental Activities</u>	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Transfers/ Disposals/ Adjustments</u>	<u>Balance</u> <u>June 30, 2019</u>
Buildings	\$ 91,803	\$ -	\$ -	\$ 91,803
Improvements	500,059	-	-	500,059
Equipment	780,541	12,133	-	792,674
Furniture and fixtures	503,634	-	-	503,634
Fiber network - outside plant	54,974,808	-	-	54,974,808
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	-	27,963	-	27,963
	<u>88,910,111</u>	<u>40,096</u>	<u>-</u>	<u>88,950,207</u>
Less - accumulated depreciation:				
Building	(39,662)	(2,654)	-	(42,316)
Improvement	(443,760)	(30,928)	-	(474,688)
Equipment	(753,304)	(24,663)	-	(777,967)
Furniture and fixtures	(376,029)	(65,376)	-	(441,405)
Fiber network - outside plant	(12,664,630)	(2,749,192)	-	(15,413,822)
Conduit	(1,381,538)	(307,506)	-	(1,689,044)
Poles	(39,506)	(8,879)	-	(48,385)
Indefeasible rights of use	(850,164)	(169,733)	-	(1,019,897)
Points of interconnection	(6,241,735)	(1,328,139)	-	(7,569,874)
Community anchor institution	(5,659,346)	(706,805)	-	(6,366,151)
Other equipment	(765,879)	-	-	(765,879)
Spares MB123	(858,979)	(214,746)	-	(1,073,725)
	<u>(30,074,532)</u>	<u>(5,608,621)</u>	<u>-</u>	<u>(35,683,153)</u>
Capital assets - net	<u>\$ 58,835,579</u>	<u>\$ (5,568,525)</u>	<u>\$ -</u>	<u>\$ 53,267,054</u>

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2019

3. CAPITAL ASSETS...continued

<u>Business -Type Activities</u>	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Transfers/ Disposals/ Adjustments</u>	<u>Balance June 30,2019</u>
Buildings	\$ 20,383,318	\$ -	\$ -	\$ 20,383,318
Improvements	1,321,849	-	-	1,321,849
Equipment	87,191	913	-	88,104
Furniture and fixtures	<u>174,670</u>	<u>-</u>	<u>-</u>	<u>174,670</u>
	<u>21,967,028</u>	<u>913</u>	<u>-</u>	<u>21,967,941</u>
Less - accumulated depreciation:				
Building	(15,180,321)	(507,393)	-	(15,687,714)
Improvement	(940,764)	(107,387)	-	(1,048,151)
Equipment	(86,780)	(346)	-	(87,126)
Furniture and fixtures	<u>(156,260)</u>	<u>(3,907)</u>	<u>-</u>	<u>(160,167)</u>
	<u>(16,364,125)</u>	<u>(619,033)</u>	<u>-</u>	<u>(16,983,158)</u>
Capital assets - net	<u>\$ 5,602,903</u>	<u>\$ (618,120)</u>	<u>\$ -</u>	<u>\$ 4,984,783</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, 2019 pension expense was \$780,045.

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, 2019, MassTech's total contributions were \$119,109 of which \$96,827 was vested. These contributions were based on employee contributions of \$409,047.

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>
2020	\$ 637,000
2021	637,000
2022	632,500
2023	<u>478,100</u>
	<u>\$ 2,384,600</u>

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Notes to Financial Statements
Year Ended June 30, 2019

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, 2019, these reimbursements are included in operating lease revenue and amounted to \$56,835.

In accordance with the Lease, the lessee deposited \$125,000 with MassTech. These funds are included in other noncurrent liabilities in the accompanying statement of net position for the proprietary fund at June 30, 2019.

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 October 2024. 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>
2020	\$ 364,420
2021	553,023
2022	562,437
2023	572,203
2024	580,312
Thereafter	<u>194,997</u>
	<u>\$ 2,827,392</u>

In accordance with the Boston Lease, MassTech deposited \$94,301 with Lessor. These funds are included in prepaid and other assets in the accompanying statement of net position at June 30, 2019.

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 and overhead lines insurance policies.

MassTech also carries umbrella coverage for general, employee benefits, automobile, and employer 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.

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Notes to Financial Statements
Year Ended June 30, 2019

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, 2019, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Campus operations	<u>\$ 368,923</u>

Interfund transfers activity for allocated office related costs totaled \$142,909 through June 30, 2019.

Interfund transfers activity for the purpose of covering certain expenses and obligations for the MBI totaled \$7,827,308 through June 30, 2019.

8. NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the year ended June 30, 2019 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Claims and judgments	\$ 12,241,981	\$ -	\$ (12,241,981)	\$ -
Accrued compensated Absences	576,743	-	(214,527)	362,216
Long-Term Deferred Rent	<u>10,266</u>	<u>178,600</u>	<u>-</u>	<u>188,866</u>
	<u>\$ 12,828,990</u>	<u>\$ 178,600</u>	<u>\$ (12,456,508)</u>	<u>\$ 551,082</u>

9. 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.

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Notes to Financial Statements
Year Ended June 30, 2019

9. CONTINGENCIES....continued

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.

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).

Before engaging in additional discovery in the trial court, the parties met to discuss a potential settlement. On June 19, 2019, MassTech and G4S entered into a settlement agreement for \$4,538,000 ending all litigation between the parties.

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Notes to Financial Statements
Year Ended June 30, 2019

9. CONTINGENCIES....continued

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.

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.

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Notes to Financial Statements
Year Ended June 30, 2019

9. CONTINGENCIES....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.

On October 2, 2018, the Arbitrator issued a decision ("Final Award") which, as modified in November 2018, 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

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Notes to Financial Statements
Year Ended June 30, 2019

9. CONTINGENCIES....continued

network operator through future network profits, and elimination of the existing Guaranty of the contract by KCST's parent Axia.

Prior to MassTech's payment of the damages to KCST and Axia NetMedia, Axia filed a motion in District Court seeking to dissolve the PI and execute on the \$4 million bond that MassTech posted when seeking the PI. On October 31, 2018, the District Court dissolved the PI and held that Axia was not entitled to execute on the bond.

After review of its options, MassTech decided to challenge only the portion of the Arbitrator's award voiding the Guaranty. On May 28, 2019, the District Court ruled that the Arbitrator had exceeded his authority by voiding the Guaranty, and the Guaranty was reinstated. On June 25, 2019, Axia filed a Notice of Appeal with the United States Court of Appeals for the First Circuit challenging the District Court ruling.

In the Bankruptcy Case, the Court 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 motioned to approve disclosure statement that would propose assumption or rejection of the Network Operator Agreement, on or before January 31, 2019.

On January 31, 2019, KCST submitted a Plan of Reorganization, which signaled its intent to accept the new provisions of the Network Operator Agreement, as revised by the Arbitrator. MassTech filed a challenge to certain provisions of the KCST Plan of Reorganization, and in early June 2019, KCST filed a First Amended Plan of Reorganization, as Modified, which was approved by the Bankruptcy Court on June 28, 2019. MassTech and KCST reserved certain unresolved issues for further resolution ("Reserved Matters"), which requires MassTech and KCST to meet and confer to resolve the Reserved Matters. The Bankruptcy Court's Confirmation Order affirms KCST's acceptance of the revised Network Operator Agreement, and incorporates a Transitional Services Agreement in which Axia Supernet LTD and Axia Connect LTD perform certain network operations, maintenance, and repair tasks through the remainder of the contract period, which terminates in August 2023.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events December 2, 2019.

In the Axia matter, Axia filed its Brief with the First Circuit Court of Appeals on October 11, 2019, and MassTech's Reply Brief is expected to be submitted in December 2019.

In the Bankruptcy Case, MassTech and KCST have met three times and continue to work to resolve the Reserved Matters. The Bankruptcy Court has retained jurisdiction to resolve the Reserved Matters that are not finalized by the parties, and MassTech and KCST have jointly requested three 30-day extensions with the court to continue working on a resolution.



RSM US LLP

**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, the 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, 2019, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated December 2, 2019.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 2, 2019