

Massachusetts Technology Park Corporation

(A Component Unit of the
Commonwealth of Massachusetts)

Financial Statements and
Required Supplementary Information
Issued in Accordance with *Government Auditing Standards*

Year Ended June 30, 2020

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

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RSM US LLP

Independent Auditor's Report

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, 2020, 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, 2020, 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 November 23, 2020, 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
November 23, 2020

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2020 and 2019

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, 2020 and 2019. 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 strengthens the competitiveness of the tech and innovation economy by driving strategic investments, partnerships, and insights that harness the talent of Massachusetts.

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 38 year history, MassTech has managed numerous complex projects, overseeing more than \$629 million in public funding by providing grants, loans, and other financial assistance to thousands of projects across the Commonwealth of Massachusetts (the "Commonwealth" or "Massachusetts"). Through its major divisions and centers - the Innovation Institute (the "Institute"), the Massachusetts eHealth Institute ("MeHI"), the Massachusetts Broadband Institute ("MBI"), the MassCyberCenter, and the Center for Advanced Manufacturing, 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 Institute at MassTech is chartered to support the economic conditions for growth for the Commonwealth's technology and innovation-based economy. The Institute works closely with key stakeholders in academia, industry, public, and nonprofit sectors to strengthen capacities in research, technology and business development, and talent, which lead to new business formation, and job creation. These efforts also attract and grow companies in emerging and established technology sub-sectors such as robotics, financial technology, advanced manufacturing, computing, and cybersecurity.

The Institute engages in grant activities, manages projects, develop initiatives 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 and aligns technology capacities at our research institutions with the needs of industry;
- Secures the economic benefits of downstream production and employment for all regions of the Commonwealth as new research and technologies are commercialized in the marketplace;
- Analyzes the Massachusetts innovation economy through the development of the annual Index of the Massachusetts Innovation Economy as well as sector and regional specific analyses;
- Partners with and invests in novel talent development initiatives such as internship support and targeted higher education and adult education technology training programs with a focus on diversity and inclusion;

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- Provides business assistance services targeted toward firms in the technology sector with the goal of helping businesses relocate to or expand in the Commonwealth. The Innovation Institute provides referrals to state resources as well as assisting startup entrepreneurs and tech firms leverage other resources in the tech ecosystem;
- Develops regional innovation economies and cluster growth through its regional priority grant program by supporting 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 blockchain; and convening key stakeholders in promising clusters to develop consensus around targeted action agendas.
- Facilitates 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.

As a mechanism to drive growth in industry clusters, the Innovation Institute also 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. Four new awards were made under this program in fiscal year 2020. To date, 10 awards have been made under this fund for a total of \$28.3 million of capital investment to fund and help develop large-scale, long-term collaborative research projects sponsored by Massachusetts-based research entities. This program enables the Innovation Institute to strengthen research capacity in the Commonwealth through these research investments and by convening the directors of research centers to share best practices and to promote partnerships with key industry partners.

Two other programs contribute to the goals of the Innovation Institute including 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 fiscal year 2020, the Innovation Institute participated in 11 regional entrepreneur support initiatives helping to expand and enhance programs and activities to reach more people, target diverse communities, and increase the impact.

The MassCyberCenter

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 third annual Cybersecurity Forum was held in October of 2019 as part of the inaugural Massachusetts Cybersecurity Week. The 2019 Forum, focused on the theme "*Leading a Cyber Secure and Resilient Commonwealth Together*," built on the momentum of prior events, helping strengthen connections across the cybersecurity ecosystem and solidifying the Commonwealth's global leadership in cybersecurity.

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The Cyber Resilient Massachusetts Working Group ("CRMWG") was established to bring together public and private sector leaders to identify ways the Commonwealth's innovative technology ecosystem can help Massachusetts municipalities and critical institutions protect sensitive data, increase cybersecurity awareness, and respond to emerging threats. Over 45 member organizations participate in the CRMWG and additional sub-working groups focused on municipalities, strategic planning, table top exercises, and critical infrastructure. During fiscal year 2020, the CRMWG held 12 meetings and developed a Municipal Cybersecurity Toolkit as a first step to help municipal leaders begin to understand the cybersecurity posture of their municipality and to develop next steps for protecting municipal infrastructure against cyber threats. Recognizing the need to assist the Massachusetts' 351 municipalities in building their cyber incident response plans, the MassCyberCenter engaged the firm of Robinson + Cole to design, develop, and facilitate Cyber Incident Response Plan Workshops for Massachusetts municipalities, workshops which began in July of 2020.

Massachusetts Manufacturing Innovation Initiative (M2I2)

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. Through grants administered by Executive Office of Housing and Economic Development (EOHED), M2I2 provides capital cost shares for projects and discovery centers located within the Commonwealth's borders, as part of the state's ongoing commitment to the Manufacturing USA program. The initiative boosts economic development by supporting job creation and growth in existing and emerging industry clusters across Massachusetts.

In April 2020, as a response to the COVID-19 public health crisis, the Baker-Polito Administration announced a new initiative to mobilize, organize, and operationalize critical path work streams necessary for Massachusetts manufacturers to pivot their operations to produce needed materials in response to the pandemic. Called the Massachusetts Manufacturing Emergency Response Team or M-ERT, the effort helped produce in-demand personal protective equipment (PPE) and other critical devices, such as ventilators, sanitizers, and thermometers. Funding in the amount of \$5.6 million was allocated to the M2I2 program and was administered, with support from MassTech, through Advanced Functional Fabrics of America (AFFOA), a member of the National Network of Manufacturing Innovation Institutes.

During fiscal year 2020, more than \$14 million in grants were award to nine grantees bringing the total M2I2 awards to over \$64 million to date.

Massachusetts eHealth Institute

Through MeHI, MassTech is working to accelerate the growth and adoption of technologies that save lives and reduce healthcare costs. MeHI was created through the passage of Chapter 305 of the Acts of 2008 and tasked with improving healthcare quality and increasing 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 implementing electronic health records ("EHRs") in all provider settings statewide, helping providers connect these EHRs to the Commonwealth's health information exchange, the Mass HIway, identifying 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

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

MeHI 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 380 digital health companies and the Initiative aims to increase the growth of these firms. MeHI connects policymakers, healthcare experts, physicians, and business leaders to break down the barriers to widespread integration of these advanced technologies.

MeHI has three teams working to promote its mission. MeHI's Medicaid Services team provides technical assistance, enrollment and validation services related to the Medicaid Incentive Program. The HIway Adoption and Outreach Services team develops and delivers services to promote health information exchange adoption and utilization among healthcare providers. Both of these programs are conducted under agreements with the Commonwealth of Massachusetts Executive Office of Health and Human Services.

In addition to the above services, MeHI's Digital Health team focused in fiscal year 2020 on the growth of the Commonwealth's digital health ecosystem and on supporting innovation in aging and caregiving.

As the implementing agency for the Massachusetts Digital Health Initiative, MeHI's activities in fiscal year 2020 included:

- Administering \$250,000 in additional grant funding for the Commonwealth's two primary digital health innovation labs: MassChallenge HealthTech in Boston and TechSpring at Baystate Health in Springfield. With this funding, the two programs provided targeted support for over 38 digital health startups, helping them grow and compete;
- Owning, maintaining, and enhancing the MassDigitalHealth.org web portal, including improving and promoting the only statewide digital health job board in the United States with over 330 companies and more than 1,000 open digital health jobs;
- Partnering with MassChallenge HealthTech to run a one-year sponsorship of 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 and is distributed weekly to a growing audience of thousands of digital health and healthcare stakeholders, helping to grow the Mass Digital Health brand across the country and world;
- Focus on supporting innovation in aging and caregiving in alignment with one of the Baker-Polito Administration's priorities;
- Running and expanding the Digital Health Sandbox Network and Grant Program. This grant program supports Massachusetts digital health companies in accessing testing and validation opportunities at Massachusetts sandboxes. The program expanded from one Sandbox in fiscal year 2019 to eight Sandbox locations and one Sandbox tool in fiscal year 2020. MeHI also awarded \$240,000 in grants to the Sandboxes to support projects with five Massachusetts digital health companies;

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- Launching the Right Care 4 You Grant Program to support the goals of the Massachusetts Employer Health Coalition by offsetting the costs for Massachusetts digital health companies to pilot their products and services with Massachusetts employers. MeHI awarded \$189,360 to two Massachusetts digital health companies to pilot their products and quantify their impact on their employer partner's healthcare costs.

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 Healthcare Council, including the release of a report that outlined eight near-term priority initiative recommendations, the Council's activities to date, and its plans to implement the initiatives going forward.

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*.

MBI's Last Mile program was designed to support and co-invest in broadband solutions for the Massachusetts towns who have lacked residential broadband service. This program includes grants to private broadband service providers and directly to municipalities.

As part of this effort, the Last Mile Infrastructure Grant Program, launched by the 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 \$26.9 million, including funds from the additional authorization in 2018.

During fiscal year 2020, MBI continued to identify solutions and award funds for the remaining unserved towns. As of the end of the fiscal year, funds have been awarded for a broadband solution for all Last Mile towns.

As of the end of the fiscal year, of the original 53 Last Mile towns (including underserved towns), 21 towns are completed and have fully operational broadband networks, 11 others have broadband networks that are partially lit, with customers installations occurring on a rolling basis construction is completed. The remaining 21 town projects are in the design, make ready process, or construction phase.

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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. 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. KCST continues to operate the *MassBroadband 123* network under that agreement. Additional discussion of the legal proceedings involving KCST and Axia is provided in Footnote 10.

Campus Operations

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

Overview of the Financial Statements

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

The 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 2020 and 2019.

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Summary of Statements of Net Position
June 30, 2020 and 2019

	2020			2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
ASSETS						
Noncurrent assets	\$ 110,723	\$ -	\$ 110,723	\$ 110,723	\$ -	\$ 110,723
Other noncapital assets	27,321,880	8,515,991	35,837,871	26,825,827	6,344,249	33,170,076
Capital assets (net of accumulated depreciation)	50,032,726	4,401,307	54,434,033	53,267,054	4,984,783	58,251,837
Total assets	77,465,329	12,917,298	90,382,627	80,203,604	11,329,032	91,532,636
LIABILITIES						
Noncurrent liabilities	598,321	141,231	739,552	551,082	132,622	683,704
Other liabilities	7,931,880	274,879	8,206,759	6,622,489	373,249	6,995,738
Total liabilities	8,530,201	416,110	8,946,311	7,173,571	505,871	7,679,442
NET POSITION						
Net investment in capital assets	\$ 50,032,726	\$ 4,401,307	\$ 54,434,033	\$ 53,267,054	\$ 4,984,783	\$ 58,251,837
Restricted for:						-
Massachusetts e-Health Institute	9,457,427	-	9,457,427	10,511,650	-	10,511,650
Innovation Institute	8,816,643	-	8,816,643	7,246,741	-	7,246,741
Massachusetts Broadband Institute	2,001,529	-	2,001,529	2,001,529	-	2,001,529
Campus Development/other corporate purposes	-	3,697,247	3,697,247	-	2,601,538	2,601,538
Unrestricted	(1,373,197)	4,402,634	3,029,437	3,059	3,236,840	3,239,899
Total net position	\$ 68,935,128	\$ 12,501,188	\$ 81,436,316	\$ 73,030,033	\$ 10,823,161	\$ 83,853,194

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Assets

MassTech's total assets were approximately \$90.4 million as of June 30, 2020, a decrease of approximately \$1.2 million from the prior year.

MassTech's investment in capital assets for its governmental and business-type activities as of June 30, 2020 amounts to approximately \$54.4 million net of depreciation. The investment in capital assets includes buildings, improvements, furniture, equipment, and broadband infrastructure. The decrease in investment in capital assets for the current fiscal year was approximately \$3.8 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 \$8.9 million as of June 30, 2020, an increase of approximately \$1.3 million from the prior year. Of this change, approximately \$4 million relates to a decrease in accrued expenses (\$1.1 million in Innovation Institute, primarily related to less R&D Matching Grant financial assistance expenses and \$2.9 million in MBI, related to fewer Last Mile grants expenses); offset by a \$3.3 million increase in Unearned Revenue due to MBI revenue received and the associated costs not yet incurred and an increase in due to other funds of \$1.9 million primarily related to capital contributions..

MassTech has no long-term debt outstanding.

Net Position

Between fiscal years 2019 and 2020, the net position has decreased by approximately \$2.4 million to approximately \$81.4 million.

Net investment in capital assets represents approximately 66.8% of net position as of June 30, 2020. Of the remaining approximately 33.2% of MassTech's net position at June 30, 2020, approximately 10.8% is attributable to the Innovation Institute, approximately 11.6% to MEHI, approximately 2.5% to MBI, approximately 4.5% to Campus Operations and other corporate purposes and the remaining approximately 3.7% is classified as unrestricted.

Unrestricted net position of the governmental activities decreased by \$1.4 million compared to prior year, primarily as a result of capital contributions transferred to the business-type activities.

Approximately \$54.4 million of net position is invested in capital assets. Of this amount, \$48.5 million is related to the MassBroadband 123 network.

Restricted net position of Massachusetts e-Health Institute decreased by approximately \$1.1 million as a result of the net impact of approximately \$3.7 million in revenues, primarily from the Commonwealth, offset by operating expenses, financial assistance expenses, and capital expenditures of approximately \$4.8 million.

Restricted net position of the Innovation Institute increased by approximately \$1.6 million as a result of the net impact of approximately \$10.5 million in revenues, primarily from the Commonwealth, offset by operating expenses, financial assistance expenses, transfers and capital expenditures of approximately \$8.9 million.

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Net Position...continued

Restricted net position of the MBI remained flat as a result of the net impact of approximately \$5.6 million in revenues, primarily from the Commonwealth, offset by operating and financial assistance expenses of approximately \$5.6 million.

The net position of the business-type activities was approximately \$12.5 million as of June 30, 2020, an increase of approximately \$1.7 million from the prior year-end. This increase is primarily a result of capital contributions and funds transferred from governmental activities. 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 \$4.4 million was invested in capital assets, approximately \$3.7 million was restricted for future investment in the campus and its buildings and other restricted purposes, and the remaining balance of approximately \$4.4 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 2020 and 2019:

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Management's Discussion and Analysis (Unaudited)
 Summary of Statements of Activities
 Years Ended June 30, 2020 and 2019

	2020			2019		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenue:						
State funding	\$ 18,936,674	\$ -	\$ 18,936,674	\$ 20,111,907	\$ -	\$ 20,111,907
Outsourced corporate services	90,000	-	90,000	91,156	-	91,156
Other revenue	1,940,211	-	1,940,211	253,431	-	253,431
Campus operations	-	831,719	831,719	-	869,631	869,631
Total revenue	20,966,885	831,719	21,798,604	20,456,494	869,631	21,326,125
Expenses:						
Innovation Institute	8,904,340	-	8,904,340	7,240,615	-	7,240,615
Massachusetts e-Health Institute	4,801,768	-	4,801,768	4,645,463	-	4,645,463
Massachusetts Broadband Institute	10,192,990	-	10,192,990	16,732,640	-	16,732,640
Economic Development	834	-	834	846,355	-	846,355
Outsourced corporate services	111,027	-	111,027	99,386	-	99,386
Campus operations	-	765,787	765,787	-	998,980	998,980
Total expenses	24,010,959	765,787	24,776,746	29,564,459	998,980	30,563,439
Net position	(3,044,074)	65,932	(2,978,142)	(9,107,965)	(129,349)	(9,237,314)
Transfers	(1,489,597)	1,489,597	-	8,110,354	(8,110,354)	-
Investment earnings	438,766	122,498	561,264	686,562	226,277	912,839
Change in net position	(4,094,905)	1,678,027	(2,416,878)	(311,049)	(8,013,426)	(8,324,475)
Net position - beginning of year	73,030,033	10,823,161	83,853,194	73,341,082	18,836,587	92,177,669
Net position - end of year	\$ 68,935,128	\$ 12,501,188	\$ 81,436,316	\$ 73,030,033	\$ 10,823,161	\$ 83,853,194

Massachusetts Technology Park Corporation

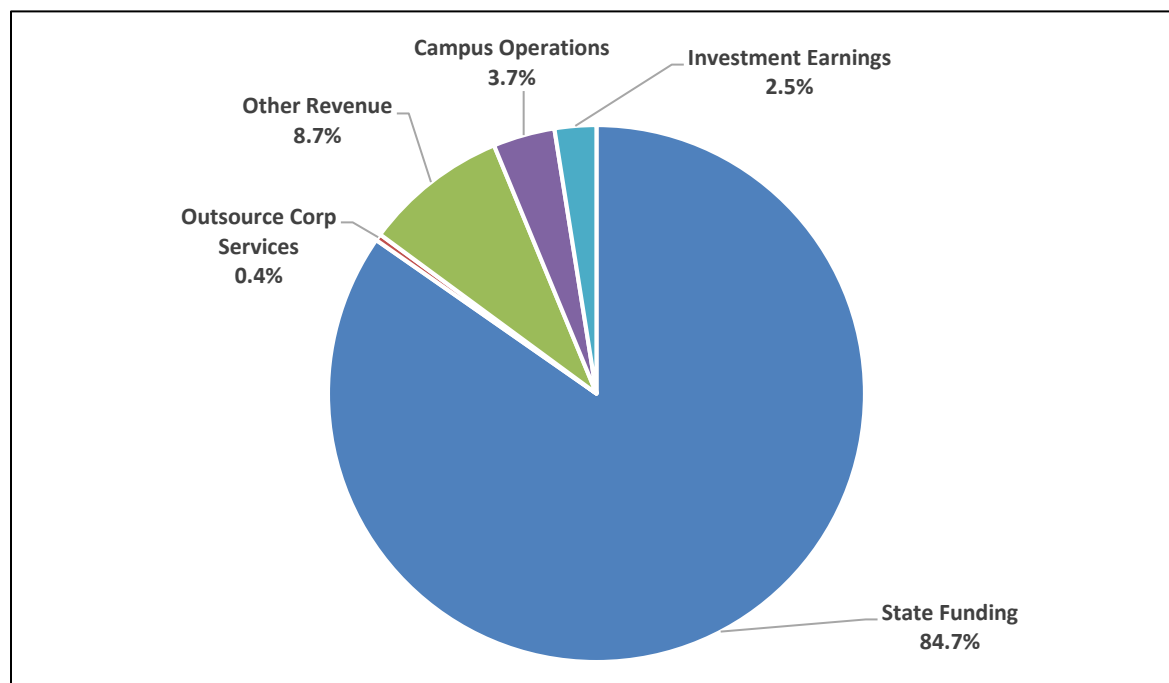
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Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2020 and 2019

Total governmental and business-type revenues, including investment earnings, were approximately \$22.4 million for the fiscal year ended on June 30, 2020, which was an increase of approximately \$0.1 million from the prior year. The change in revenue results from a decrease of approximately \$1.2 million in state revenue, a decrease in investment earnings of \$0.4 million, offset by an increase in other revenue of \$1.7 million, primarily related to a capital contribution. The state funding decreased primarily due to decreased bond funding for the MBI Last Mile Program offset by increased bond funding for the Research & Development Matching Grant Fund program. Total expenses decreased by approximately \$5.8 million. MeHI's expenses increased by approximately \$0.1 million, primarily as a result of an increase in personnel and program support expenses. MBI expenses decreased by approximately \$6.5 million, primarily as a result of a decrease in financial assistance and in legal and litigation related expenses, as well as a decrease in depreciation expense. The Innovation Institute's expenses increased by approximately \$1.6 million, primarily as a result of increased financial assistance expenses for the R&D Matching Grant Fund program, as well as an increase personnel and program support expenses. The Economic Development Fund's expenses decreased by approximately \$0.8 million, primarily due to a revised categorization of certain personnel and program support expenses. The proprietary fund's expenses decreased by approximately \$0.2 million, primarily due to a decrease in personnel related expenses.

Revenue

The total revenues of MassTech for the fiscal year ended June 30, 2020, were \$22.4 million, including investment earnings. Total revenues break down by source as follows:



Massachusetts Technology Park Corporation

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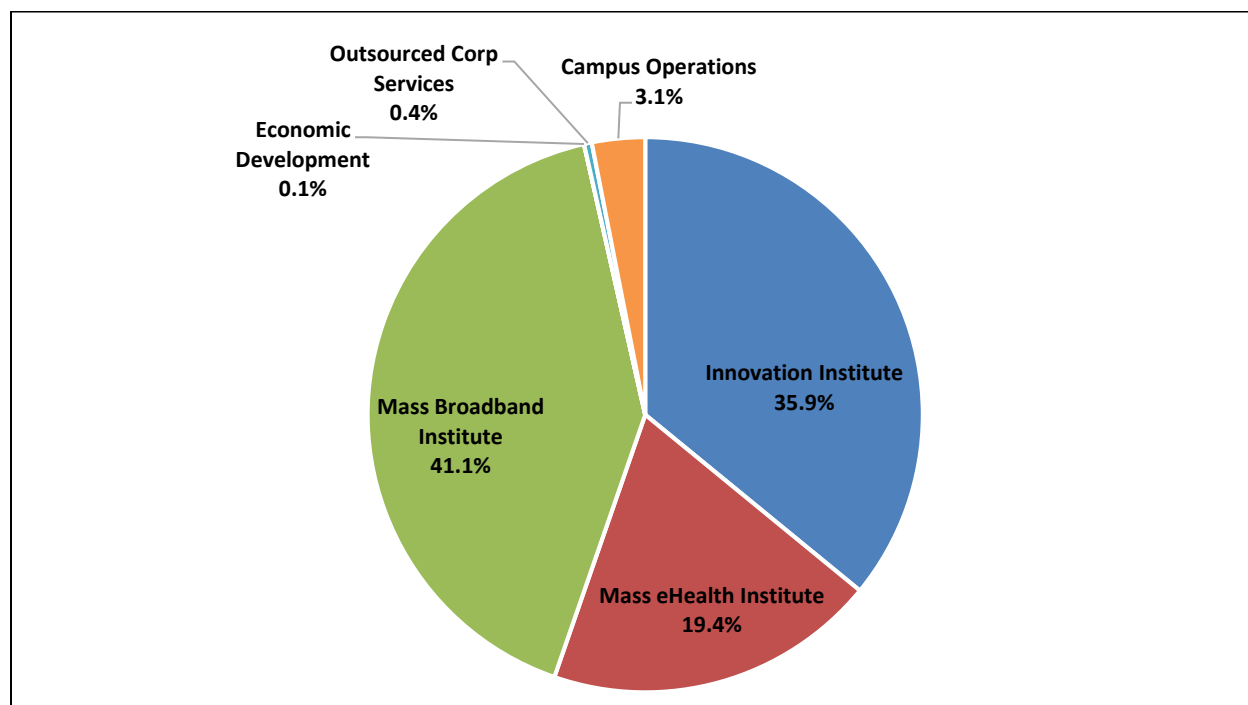
Management's Discussion and Analysis (Unaudited)
Years Ended June 30, 2020 and 2019

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 2020 include fees from the Massachusetts Life Sciences Center for outsourced corporate services, network operator payments, capital contributions, rentals of campus buildings, and investment earnings.

Expenses

The expenses for fiscal year 2020 were approximately \$24.8 million, which in addition to operating costs included approximately \$8.8 million of financial assistance expenses, \$1.3 million of MBI Network Operations expenses and \$5.2 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 2020 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, 2020

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 2,579,081	\$ 2,579,081
Restricted cash and cash equivalents	16,347,624	3,697,247	20,044,871
Accounts receivable:			
Due from other funds	-	2,228,770	2,228,770
Other receivables	3,746,523	-	3,746,523
Prepaid expense and other assets	624,315	10,893	635,208
Cash committed for program awards:			
Cash and cash equivalents	6,714,141	-	6,714,141
Total noncapital assets	<u>27,432,603</u>	<u>8,515,991</u>	<u>35,948,594</u>
Capital assets (net of accumulated depreciation):			
Depreciable capital assets:			
Buildings	46,833	4,188,211	4,235,044
Improvements	30,682	192,147	222,829
Equipment	7,752	584	8,336
Furniture and fixtures	33,997	10,765	44,762
Fiber network	48,509,243	-	48,509,243
Non-depreciable capital assets:			
Intangible assets	1,376,256	-	1,376,256
Work in progress	27,963	9,600	37,563
Total capital assets	<u>50,032,726</u>	<u>4,401,307</u>	<u>54,434,033</u>
Total assets	<u>77,465,329</u>	<u>12,917,298</u>	<u>90,382,627</u>
LIABILITIES			
Accounts payable	376,718	274,879	651,597
Accrued expenses	2,184,696	-	2,184,696
Funding received in advance	3,396,565	-	3,396,565
Due to other funds	2,228,770	-	2,228,770
Other liabilities	343,452	141,231	484,683
Total liabilities	<u>8,530,201</u>	<u>416,110</u>	<u>8,946,311</u>
NET POSITION			
Net investment in capital assets	50,032,726	4,401,307	54,434,033
Restricted for:			
Massachusetts e-Health Institute	9,457,427	-	9,457,427
Innovation Institute	8,816,643	-	8,816,643
Massachusetts Broadband Institute	2,001,529	-	2,001,529
Campus development	-	3,697,247	3,697,247
Unrestricted	(1,373,197)	4,402,634	3,029,437
Total net position	<u>\$ 68,935,128</u>	<u>\$ 12,501,188</u>	<u>\$ 81,436,316</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, 2020

Functions/Programs	Expenses	Program Revenue Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position		Total
				Governmental Activities	Business-Type Activities	
Governmental activities:						
Innovation Institute	\$ 8,904,340	\$ 669,906	\$ 9,677,858	\$ 1,443,424	\$ -	\$ 1,443,424
Massachusetts e-Health Institute	4,801,768	3,571,466	-	(1,230,302)	-	(1,230,302)
Massachusetts Broadband Institute	10,192,990	493,955	5,087,444	(4,611,591)	-	(4,611,591)
Economic development	834	-	-	(834)	-	(834)
Corporate Services	111,027	1,466,256	-	1,355,229	-	1,355,229
Total governmental activities	<u>24,010,959</u>	<u>6,201,583</u>	<u>14,765,302</u>	<u>(3,044,074)</u>	<u>-</u>	<u>(3,044,074)</u>
Business-type activities:						
Campus operations	765,787	831,719	-	-	65,932	65,932
Total business-type activities	<u>765,787</u>	<u>831,719</u>	<u>-</u>	<u>-</u>	<u>65,932</u>	<u>65,932</u>
Total	<u>\$ 24,776,746</u>	<u>\$ 7,033,302</u>	<u>\$ 14,765,302</u>	<u>(3,044,074)</u>	<u>65,932</u>	<u>(2,978,142)</u>
General Revenues:						
Investment earnings				438,766	122,498	561,264
Transfers						
				(1,489,597)	1,489,597	-
Change in net position				<u>(4,094,905)</u>	<u>1,678,027</u>	<u>(2,416,878)</u>
Net position - beginning of year				<u>73,030,033</u>	<u>10,823,161</u>	<u>83,853,194</u>
Net position - end of year				<u>\$ 68,935,128</u>	<u>\$ 12,501,188</u>	<u>\$ 81,436,316</u>

See notes to financial statements.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Balance Sheet - Governmental Fund
June 30, 2020

	<u>General Fund</u>
ASSETS	
Restricted cash and cash equivalents	\$ 16,347,624
Other receivables	3,746,523
Prepaid expenses and other assets	513,592
Cash committed for program awards:	
Cash and cash equivalents	<u>6,714,141</u>
Total assets	<u><u>\$ 27,321,880</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 376,718
Accrued expenses	1,847,925
Due to other funds	2,228,770
Funding received in advance	3,396,565
Other current liabilities	<u>81,902</u>
Total liabilities	<u>7,931,880</u>
Deferred inflows of resources:	
Unavailable revenue	<u>639,011</u>
Total deferred Inflows of resources	<u>639,011</u>
Fund balance:	
Non-Spendable	513,592
Committed	6,714,141
Restricted	<u>11,523,256</u>
Total fund balance	<u>18,750,989</u>
Total liabilities, deferred Inflows of resources, and fund balance	<u><u>\$ 27,321,880</u></u>
Total fund balance of governmental fund	\$ 18,750,989
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	(598,321)
Unavailable revenues meet the criteria for revenue recognition in the statement of activities	639,011
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, not reported in funds	<u>50,032,726</u>
Net position of governmental activities	<u><u>\$ 68,935,128</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, 2020

	<u>General Fund</u>
Revenue:	
State funding	\$ 22,707,520
Investment earnings	438,766
Outsourced corporate services	90,000
Other revenue	1,446,256
Total revenues	<u>24,682,542</u>
Expenditures:	
Innovation Institute	8,823,569
Massachusetts e-Health Institute	4,753,808
Massachusetts Broadband Institute	5,618,793
Economic development	45,939
Outsourced corporate services	1,487,283
Total expenditures	<u>20,729,392</u>
Other financing sources:	
Transfers out	<u>(1,489,597)</u>
Net change in fund balance	2,463,553
Fund balance - beginning of year	<u>16,287,436</u>
Fund balance - end of year	<u>\$ 18,750,989</u>
Net change in fund balance - general fund	\$ 2,463,553
Amounts reported for governmental funds above and those reported for governmental activities in the statement of activities are different because:	
Unavailable revenues meet the criteria for revenue recognition in the statement of activities	639,011
Some revenues in the fund statements were recognized in the statement of activities in a prior year	(3,915,902)
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:	(47,239)
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>(3,234,328)</u>
Change in net position of governmental activities	<u>\$ (4,094,905)</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, 2020

	<u>Campus Operations</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,579,081
Restricted cash and cash equivalents	3,697,247
Due from other funds	2,228,770
Prepaid expenses and other current assets	10,893
Total current assets	<u>8,515,991</u>
Capital assets:	
Buildings	20,383,318
Improvements	1,322,285
Equipment	88,104
Furniture and fixtures	174,670
Work in Process	9,600
Total capital assets	<u>21,977,977</u>
Less - accumulated depreciation	<u>(17,576,670)</u>
Total capital assets - net	<u>4,401,307</u>
Total assets	<u>\$ 12,917,298</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>274,879</u>
Total current liabilities	<u>274,879</u>
Noncurrent liabilities:	
Other liabilities	<u>141,231</u>
Total noncurrent liabilities	<u>141,231</u>
Total liabilities	<u>416,110</u>
NET POSITION	
Net investment in capital assets	4,401,307
Restricted for campus development/other purposes	3,697,247
Unrestricted	<u>4,402,634</u>
Total net position	<u>12,501,188</u>
Total liabilities and net position	<u>\$ 12,917,298</u>

See notes to financial statements.

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

Statement of Revenue, Expenses and Changes in Net Position - Proprietary Fund
Year Ended June 30, 2020

	<u>Campus Operations</u>
Operating revenue:	
Operating lease revenue	\$ 730,224
Reimbursement from other funds	<u>101,495</u>
Total operating revenue	<u>831,719</u>
Operating expenses:	
Personnel and support services	172,274
Depreciation	<u>593,513</u>
Total expenses	<u>765,787</u>
Operating income	65,932
Nonoperating revenue - interest income	122,498
Other financing sources:	
Transfers in	<u>1,489,597</u>
Change in net position	1,678,027
Total net position - beginning of year	<u>10,823,161</u>
Total net position - end of year	<u>\$ 12,501,188</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, 2020

	<u>Campus Operations</u>
Cash flows from operating activities:	
Receipts from leases and rentals	\$ 733,309
Reimbursement from other funds	101,495
Payroll and vendor payments	<u>(176,641)</u>
Net cash provided by operating activities	658,163
Cash flows used in noncapital financing activities - interfund activities	(830,907)
Cash flows used in capital and related financing activities - capital purchases	(10,036)
Cash flows from investing activities - interest received	<u>122,498</u>
Net decrease in cash and cash equivalents	(60,282)
Cash and cash equivalents-beginning of year	<u>6,336,610</u>
Cash and cash equivalents-end of year	<u><u>\$ 6,276,328</u></u>
Displayed as:	
Cash and cash equivalents	\$ 2,579,081
Restricted cash and cash equivalents	<u>3,697,247</u>
	<u><u>\$ 6,276,328</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 65,932
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	593,512
Changes in assets and liabilities:	
Prepaid expenses and other current assets	(3,251)
Accounts payable	<u>1,970</u>
Net cash provided by operating activities	<u><u>\$ 658,163</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, 2020

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) The MassCyberCenter launched to enhance opportunities for the Massachusetts cybersecurity ecosystem to compete as the national cybersecurity leader while strengthening the resiliency of the Commonwealth’s public and private communities;
- (v) The Massachusetts Manufacturing Innovation Initiative (“M2I2”) to advance innovations and job growth within the state through cross-collaboration among companies, universities, national labs, government, incubators, accelerators and other academic and training institutions;
- (vi) 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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Reporting Entity...continued

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.

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 MBI, MeHI, and the Innovation Institute which currently includes MassCyberCenter and M2I2 activities.

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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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

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.

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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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.

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 2020 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, 2020.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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 capital assets

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used are measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage are measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. The Organization did not record any impairment charges as of June 30, 2020 as there were no indicators of impairment.

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 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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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, 2020, the government-wide statement of net position reports approximately \$54.4 million of net investments in capital assets.
- Restricted - Restricted net position represents net position that is not available as it's legally restricted by enabling legislation or by outside parties for use for a specific purpose. Specifically, the Organization's restricted net position is restricted for use in the Innovation Institute, MeHI, MBI, other legislatively approved mandates, and for other purposes related to the operations of the campus and for programmatic development. At June 30, 2020, the government-wide statement of net position reports approximately \$24 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, 2020, the government-wide statement of net position reports approximately \$3 million of unrestricted net position.

Fund Balance

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

- Non-spendable - This classification includes amounts not in a spendable form, or funds legally or contractually required to be maintained intact. MassTech has classified its prepaid expenses as non-spendable.
- 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, Innovation Institute, MassCyberCenter, and M2I2 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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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.

Recently Issued Accounting Pronouncements

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 June 15, 2021. 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, 2020. 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

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Notes to Financial Statements
Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Recently Issued Accounting Pronouncements...continued

In May 2020, the GASB issued GASB No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions that may impact MassTech are postponed by one year: GASB No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The effective date for GASB Statement No. 87, *Leases*, was postponed by 18 months. The requirements of this Statement are effective immediately and the amended effective dates have been reflected in the pronouncement disclosures above.

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 2020, 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, 2020, bank deposits were \$2,810,154, which excludes the amount held in the Massachusetts Municipal Depository Trust ("MMDT" or the "Trust"). Of that amount, \$500,000 was not exposed to custodial credit risk as uninsured and uncollateralized because it was insured by the FDIC. The remaining balance of \$2,310,154 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, 2020 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.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2020

2. CASH AND CASH EQUIVALENTS...continued

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, 2020, MassTech's deposits with MMDT totaled \$28,232,326. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

The following summarizes the cash and cash equivalents of the MassTech and identifies certain types of investment risk as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, at June 30, 2020:

Cash balance	\$ 1,105,767
Massachusetts Municipal Depository Trust ("MMDT") – Cash Portfolio	<u>28,232,326</u>
	<u>\$ 29,338,093</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, 2020

3. CAPITAL ASSETS

Capital assets of MassTech at June 30, 2020 are summarized as follows:

	Governmental Activities	Business- Type Activities	Total
Buildings	\$ 91,803	\$ 20,383,318	\$ 20,475,121
Improvements	521,433	1,322,285	1,843,718
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
Intangible Assets	1,376,256	-	1,376,256
Work In Process	27,963	9,600	37,563
	<u>90,347,837</u>	<u>21,977,977</u>	<u>112,325,814</u>
Less - accumulated depreciation:			
Buildings	(44,970)	(16,195,107)	(16,240,077)
Improvements	(490,751)	(1,130,138)	(1,620,889)
Equipment	(784,922)	(87,520)	(872,442)
Furniture and fixtures	(469,637)	(163,905)	(633,542)
Fiber network - outside plant	(18,184,562)	-	(18,184,562)
Conduit	(1,996,550)	-	(1,996,550)
Poles	(57,174)	-	(57,174)
Indefeasible right of use	(1,189,630)	-	(1,189,630)
Points of interconnection	(8,887,061)	-	(8,887,061)
Community anchor institutions	(6,370,250)	-	(6,370,250)
Other equipment	(765,879)	-	(765,879)
Spares MB123	(1,073,725)	-	(1,073,725)
	<u>(40,315,111)</u>	<u>(17,576,670)</u>	<u>(57,891,781)</u>
Capital assets - net	<u>\$ 50,032,726</u>	<u>\$ 4,401,307</u>	<u>\$ 54,434,033</u>

Total depreciation expense for the year ended June 30, 2020, was \$5,225,470. Of that amount, \$4,631,958 (comprising approximately \$17,307, \$22,070, \$4,591,746 and \$835 in the Innovation Institute, MeHI, MBI and Economic Development Fund respectively) is reported in the governmental activities and \$593,513 is reported in the business-type activities.

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2020

3. CAPITAL ASSETS...continued

<u>Governmental Activities</u>	Balance July 1, 2019	Additions	Transfers/ Disposals/ Adjustments	Balance June 30, 2020
Buildings	\$ 91,803	\$ -	\$ -	\$ 91,803
Improvements	500,059	21,374	-	521,433
Equipment	792,674	-	-	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
Intangible Assets	-	1,376,256	-	1,376,256
Construction-in-process	27,963	-	-	27,963
	<u>88,950,207</u>	<u>1,397,630</u>	<u>-</u>	<u>90,347,837</u>
Less - accumulated depreciation:				
Building	(42,316)	(2,654)	-	(44,970)
Improvement	(474,688)	(16,063)	-	(490,751)
Equipment	(777,967)	(6,955)	-	(784,922)
Furniture and fixtures	(441,405)	(28,232)	-	(469,637)
Fiber network - outside plant	(15,413,822)	(2,770,740)	-	(18,184,562)
Conduit	(1,689,044)	(307,506)	-	(1,996,550)
Poles	(48,385)	(8,789)	-	(57,174)
Indefeasible rights of use	(1,019,897)	(169,733)	-	(1,189,630)
Points of interconnection	(7,569,874)	(1,317,187)	-	(8,887,061)
Community anchor institution	(6,366,151)	(4,099)	-	(6,370,250)
Other equipment	(765,879)	-	-	(765,879)
Spares MB123	(1,073,725)	-	-	(1,073,725)
	<u>(35,683,153)</u>	<u>(4,631,958)</u>	<u>-</u>	<u>(40,315,111)</u>
Capital assets - net	<u>\$ 53,267,054</u>	<u>\$ (3,234,328)</u>	<u>\$ -</u>	<u>\$ 50,032,726</u>

Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Year Ended June 30, 2020

3. CAPITAL ASSETS...continued

<u>Business -Type Activities</u>	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Transfers/ Disposals/ Adjustments</u>	<u>Balance June 30,2020</u>
Buildings	\$ 20,383,318	\$ -	\$ -	\$ 20,383,318
Improvements	1,321,849	436	-	1,322,285
Equipment	88,104	-	-	88,104
Furniture and fixtures	174,670	-	-	174,670
Work-in-process	-	9,600	-	9,600
	<u>21,967,941</u>	<u>10,036</u>	<u>-</u>	<u>21,977,977</u>
Less - accumulated depreciation:				
Building	(15,687,714)	(507,393)	-	(16,195,107)
Improvement	(1,048,151)	(81,987)	-	(1,130,138)
Equipment	(87,126)	(394)	-	(87,520)
Furniture and fixtures	(160,167)	(3,738)	-	(163,905)
	<u>(16,983,158)</u>	<u>(593,512)</u>	<u>-</u>	<u>(17,576,670)</u>
Capital assets - net	<u>\$ 4,984,783</u>	<u>\$ (583,476)</u>	<u>\$ -</u>	<u>\$ 4,401,307</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, 2020 pension expense was \$798,113.

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, 2020, MassTech's total contributions were \$134,430 of which \$104,184 was vested. These contributions were based on employee contributions of \$447,143.

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>
2021	\$ 637,000
2022	632,500
2023	<u>478,100</u>
	<u>\$ 1,747,600</u>

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2020

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, 2020, these reimbursements are included in operating lease revenue and amounted to \$58,909.

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, 2020.

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>
2021	\$ 553,023
2022	562,437
2023	572,203
2024	580,312
2025	<u>194,997</u>
	<u>\$ 2,462,972</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, 2020.

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.

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2020

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, 2020, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Campus Operations	General Fund	<u>\$ 2,228,770</u>

Interfund transfers activity totaled \$1,489,597 through June 30, 2020 primarily related to revenues recognized in the General Fund but transferred to Campus Operations. Interfund transfers activity for allocated office related costs totaled \$101,495 for the period.

8. NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the year ended June 30, 2020 are as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Accrued Compensated Absences	\$ 362,216	\$ -	\$ 25,445	\$ 336,771
Long-Term Deferred Rent	<u>188,866</u>	<u>72,684</u>	<u>-</u>	<u>261,550</u>
	<u>\$ 551,082</u>	<u>\$ 72,684</u>	<u>\$ 25,445</u>	<u>\$ 598,321</u>
<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Deposits	\$ 125,000	\$ -	\$ -	\$ 125,000
Long-Term Deferred Rent	<u>7,622</u>	<u>8,609</u>	<u>-</u>	<u>16,231</u>
	<u>\$ 132,622</u>	<u>\$ 8,609</u>	<u>\$ -</u>	<u>\$ 141,231</u>

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2020

9. CONTINGENCIES

Network Operator Dispute

On March 22, 2017, KCST USA, Inc. ("KCST"), formerly named 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"), filed a Chapter 11 bankruptcy case. The case, entitled In re KCST, USA, Inc., Case No. 17-40501 (U.S. Bankruptcy Court for the District of Massachusetts) (the "Bankruptcy Case"), 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.

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).

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2020

9. CONTINGENCIES...continued

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 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. MassTech and Axia engaged in court-mandated mediation with the First Circuit Settlement Judge on October 15, 2019, which did not bear a resolution. The case was argued before a three judge panel at the First Circuit on February 3, 2020.

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.

Massachusetts Technology Park Corporation

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Notes to Financial Statements
Year Ended June 30, 2020

9. CONTINGENCIES...continued

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.

After numerous meetings between MassTech and KCST, the parties were unable to resolve all of the Reserved Matters in the Bankruptcy Case. On December 18, 2019, MassTech and KCST filed a Joint Status Report Respecting Reserved Matters, indicating that three of the six matters had been resolved by the parties, and requesting the Bankruptcy Court schedule a hearing on the remaining unresolved Reserved Matters. The Bankruptcy Court scheduled a hearing for February 14, 2020, at which both parties presented arguments. At the Hearing, the judge determined that further evidence was needed to render a ruling, and scheduled an Evidentiary Hearing for June 16, 2020. MassTech and KCST continued to negotiate a settlement agreement, and on June 4, 2020, notified the Court that an agreement in principle had been reached, and requested that the hearing be stayed. The Bankruptcy Court canceled the Evidentiary Hearing and scheduled a Status Conference for August 19, 2020.

10. COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Service operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to MassTech.

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Notes to Financial Statements
Year Ended June 30, 2020

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events November 23, 2020.

On August 30, 2020, the First Circuit reversed the District Court's decision and held that the Arbitrator did not exceed his authority when he eliminated the parental Guaranty. MassTech did not appeal this decision, ending litigation in this matter.

On September 1, 2020, MassTech and KCST filed a Joint Stipulation of Settlement with the Bankruptcy Court, resolving the remaining Reserved Matters, thus ending litigation in this matter. KCST filed a motion with the Bankruptcy Court seeking entry of a Final Decree closing the Chapter 11 case. On October 29, 2020, the Bankruptcy Court approved the Final Decree, officially closing the case.



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

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, 2020, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements, and have issued our report thereon dated November 23, 2020.

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) as a basis for designing 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.

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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 financial statements. 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
November 23, 2020