

# Massachusetts Technology Park Corporation

(A Component Unit of the  
Commonwealth of Massachusetts)

Financial Statements and  
Required Supplementary Information

Year Ended June 30, 2017

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

Financial Statements and Required Supplementary Information  
Year Ended June 30, 2017

---

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report .....	1-2
Management's Discussion and Analysis (Unaudited).....	3-14
Financial Statements:	
Government-wide Financial Statements as of and for the Year Ended June 30, 2017:	
Statement of Net Position.....	15
Statement of Activities .....	16
Fund Financial Statements as of and for the Year Ended June 30, 2017:	
Balance Sheet – Governmental Fund .....	17
Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Fund .....	18
Statement of Net Position – Proprietary Fund.....	19
Statement of Revenue, Expenses and Changes in Net Position – Proprietary Fund .....	20
Statement of Cash Flows – Proprietary Fund .....	21
Notes to Financial Statements.....	22-37
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	38-39



RSM US LLP

## Independent Auditor's Report

To the Board of Directors of  
Massachusetts Technology Park Corporation

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Massachusetts Technology Park Corporation (the "Organization"), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2017, 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, 2017, 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.

THE POWER OF BEING UNDERSTOOD  
AUDIT | TAX | CONSULTING

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management 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 8, 2017, 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 8, 2017

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

---

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, 2017 and 2016. Please read it in conjunction with the financial statements, which follow this section.

## Agency Overview

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

MassTech is advancing economic development in key areas such as digital health technology, information technology, broadband deployment, advanced manufacturing, and other emerging sectors such as cybersecurity. Over its 35 year history, MassTech has managed numerous complex projects, overseeing more than \$600 million in public funding by providing grants, loans and other financial assistance to thousands of projects across the Commonwealth of Massachusetts (the "Commonwealth"). Through its three major divisions - the Innovation Institute, the Massachusetts eHealth Institute ("MeHI"), and the Massachusetts Broadband Institute ("MBI"), MassTech is stimulating economic activity throughout the Commonwealth. MassTech brings together leaders from industry, government, and academia to advance technology-based solutions that strengthen regional economies, improve the healthcare system, expand high-speed internet access, and stimulate cluster growth.

## The Innovation Institute at MassTech

The Innovation Institute at MassTech is chartered to grow and enhance the Commonwealth's technology and innovation-based economy. The Innovation Institute works closely with academia, industry, and government officials, region-by-region and sector-by-sector, to enhance the capacity of the Massachusetts economy to sustain and support innovation. These efforts help create, attract, and grow companies in emerging and established technology sub-sectors such as robotics, digital gaming, advanced manufacturing, and cybersecurity.

The Innovation Institute engages in grant activities, providing direct services and analyzing the Massachusetts innovation economy. The Institute also:

- Supports rigorous, collaborative, interdisciplinary research and development partnerships at Massachusetts universities;
- Enhances the ability of the Commonwealth's academic research centers to compete for millions of dollars in federal research awards; and
- Secures the economic benefits of downstream production and employment for the Commonwealth as new research and technologies are commercialized in the marketplace.

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

- Support of targeted cluster growth opportunities in the Tech Sector;
- Facilitation of the Massachusetts Tech Hub Collaborative, a focused group of industry leaders that shapes policy and growth strategies for the digital technology sector;
- Support for the Commonwealth's Advanced Manufacturing Collaborative, an industry-led group focused on enhancing the competitiveness of Massachusetts manufacturers; and
- Coordination of the Massachusetts Big Data Initiative, an effort to strengthen the state's emerging cluster in advanced computing and analytics.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

---

## The Innovation Institute at MassTech...continued

The Innovation Institute is also administering a \$50 million Scientific and Technology Research and Development Matching Grant Fund which was created by the Massachusetts Legislature. In August 2016, Governor Baker signed an economic development bill, "An Act Relative to Job Creation and Workforce Development", which provides \$15 million in additional authorization for the Innovation Institute's Scientific and Technology Research and Development Matching Grant Fund. This program provides matching capital funds for scientific or technology research and development projects sponsored by the University of Massachusetts, research universities, non-profit entities, or non-profit research institutions in the Commonwealth. To date, six awards have been made under this fund for a total of \$25 million of capital investment to fund and help develop large-scale, long-term collaborative research projects sponsored by Massachusetts based research entities.

In fiscal year 2016, the Baker/Polito Administration established the Massachusetts Manufacturing Innovation Initiative ("M<sub>2</sub>I<sub>2</sub>") as a key pillar of their innovation growth strategy in Massachusetts. The National Network for Manufacturing Institutes (NNMI) is a rolling series of federally sponsored advanced manufacturing competitions, and the M<sub>2</sub>I<sub>2</sub> Initiative is a nascent state sponsored collaboration of five manufacturing innovation institutes in Massachusetts that are affiliated with the NNMI.

The Commonwealth has committed funding for infrastructure support via M<sub>2</sub>I<sub>2</sub> to match NNMI investments in manufacturing innovation, technology commercialization, and to build talent pipelines which will support vital economic sectors. The M<sub>2</sub>I<sub>2</sub> program will be overseen by MassTech and is designed to leverage the strengths of leading Massachusetts research universities to strengthen the Commonwealth's research-to-manufacturing infrastructure. It is intended to boost economic development by supporting job creation and growth in existing and emerging industry clusters across Massachusetts. The Innovation Institute funded the first awards, totaling more than \$2 million, focused on the NNMI institute for manufacturing innovation in photonics during fiscal year 2016. Additional awards were made by the Executive Office of Housing and Economic Development ("EOHED") during fiscal year 2017 and will be managed in partnership under MassTech's M<sub>2</sub>I<sub>2</sub> program.

The Innovation Institute continues to manage two initiatives, the MassTech Intern Partnership and the Massachusetts Innovation Mentoring Initiative. The Intern Partnership pays matching stipends to small- and medium-sized technology companies in Massachusetts to support the hiring of two- and four-year college students as interns. The Massachusetts Innovation Mentoring Initiative is designed to support regional entrepreneur mentoring activities in underserved regions of the state.

The Innovation Institute is also serving as the state agent in support of the objectives of the Massachusetts Computing Attainment Network ("MassCAN"). MassCAN is a public/private coalition of education, industry and non-profit partners working to create and offer the highest quality K-12 computer science education to every student in Massachusetts.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

---

## Massachusetts eHealth Institute

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

Chapter 224 of the Acts of 2012 included provisions which enhanced MeHI's charge to expand its focus on key priorities including the statewide implementation of electronic health records ("EHRs") in all provider settings, helping providers connect these EHRs to the Commonwealth's health information exchange, the Mass Hlway, identify and promoting technologies with the potential to improve the quality and reduce the cost of healthcare; helping providers continue to evolve their use of EHRs to comply with future meaningful use stages; and promoting the understanding of the benefits of Health Information Technology ("Health IT") to providers, patients, and the general public. This law also created a requirement that providers implement and use electronic health record technology in order to continue to practice in the Commonwealth. MeHI helps providers comply with this requirement through educational programs, technical support, and grants to support implementation of EHRs in healthcare delivery settings. To support this, the Massachusetts Legislature provided MeHI with funding of \$28.5 million over a four year period which began on July 1, 2013.

In January 2016, Governor Charlie Baker announced the establishment of a Massachusetts Digital Health Initiative designed to position Massachusetts as the leading global ecosystem for digital health innovation, and announced that MeHI would serve as the state's implementation agency for the Digital Health Initiative. Digital Health is among the fastest growing industry sectors in the country and Massachusetts is positioned at the forefront of this growth, combining its strengths in both healthcare and technology to drive digital health innovation. Massachusetts is already home to more than 350 digital health companies and aims to increase the growth of this industry.

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

In fiscal year 2017, MeHI continued its technology adoption work under three key programs:

- The **eHealth eQuality Program** is designed to support Behavioral Health (BH) and Long-Term and Post-Acute Care (LTPAC) providers in Massachusetts in the adoption of interoperable EHR systems. The effective use of EHRs helps improve the quality and efficiency of health care. MeHI's program is assisting BH and LTPAC providers in the procurement and implementation of interoperable EHRs and in the effective use of these technologies. This use will help these providers join other providers in using Health IT to enhance patient care coordination, ease transitions of care, and advance healthcare in Massachusetts. During fiscal year 2017, more than 85% of the providers completed their efforts under this grant program. The grantees remaining are projected to complete their projects during the first half of fiscal year 2018.
- MeHI's **Connected Communities Program** aims to catalyze collaboration and advance the adoption and use of Health IT to improve patient care and reduce healthcare costs. The Connected Communities program launched with MeHI collaborating with a diverse set of community stakeholders to inform the development of a statewide eHealth Plan intended to drive toward a more connected healthcare ecosystem in the Commonwealth. MeHI worked with the eight Connected Communities grantees and their project partners toward achieving their grant funded use cases.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

---

## Massachusetts eHealth Institute...continued

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

In fiscal year 2017, MeHI organized its digital health economic development activities under a new marketplace program:

- The **Digital Health Marketplace Program** supported both digital health entrepreneurs and customers in FY17. This new program is a cornerstone of MeHI's efforts to grow and nurture the Commonwealth's digital health ecosystem under the direction of the Massachusetts Digital Health Initiative. Marketplace Program activities in FY2017 include:
  - Awarding \$250,000 in grant funding for the Commonwealth's two primary digital health accelerators: PULSE@MassChallenge in Boston and TechSpring at Baystate Health in Springfield. With this funding, the two accelerators provided targeted support for over 60 digital health startups, helping them grow and compete.
  - Development of an online Digital Health Marketplace, coupled with enhancing and improving the MassDigitalHealth.org community website, including maintenance of an ecosystem directory housing over 350 Massachusetts digital health companies.
  - Designing and beginning implementation of a business development effort targeted at both local and out-of-state and international firms interested in relocating to Massachusetts. In FY17, MeHI provided assistance to over a dozen companies interested in relocating to Massachusetts.
  - Issuance of the first-ever survey of home-based caregivers' attitudes towards digital health technologies in Massachusetts. This report outlined the significant challenges that many caregivers face and how new technologies can help improve their quality of care and life.

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

## 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 initially approved for the MBI to develop last mile solutions designed to bring broadband from centralized hubs to individual end users ("Last Mile"). In prior fiscal years MBI awarded planning grants for unserved towns in western Massachusetts and engaged communities and regional leaders in preparation for their significant role in the Last Mile process. The MBI also focused on an evaluation of regional network considerations, including network operations, technology options, municipal financing considerations, and the identification of potential incremental funding sources.



# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

---

## Massachusetts Broadband Institute...continued

Early in fiscal year 2017, a \$1.6 million grant to Charter Communications was announced to upgrade and extend broadband access to three unserved communities in Western Massachusetts and MassTech awarded Comcast a \$4 million grant to reimburse partial project costs to extend broadband access in nine municipalities in Western and North Central Massachusetts, MBI also issued a request for proposals for private sector providers interested in designing, building, owning, operating, managing, and maintaining a communications network in one or more of the remaining unserved towns which would provide residents, businesses, government offices and community institutions with broadband internet access. As a result of that request for proposals, awards totaling more than \$5.2 million were made which will provide support the construction of broadband networks in six towns.

On April 3, 2017, the Commonwealth and the EOHEC launched a new grant making program for unserved towns, similar to the existing MassWorks grant programs provided to municipalities for infrastructure projects. The Last Mile Infrastructure Grant Program is designed to provide flexible funding for eligible towns who wish to develop and build municipally-owned broadband networks. The program is intended to empower communities, and towns can use these grants to fund design and engineering, and construction services directly, as they would other local infrastructure projects. Each Town will be in control of and oversee the entire process, from design and engineering, through construction and lighting up of their municipally-owned broadband networks. The EOHEC will administer the Last Mile Infrastructure Grant Program and, as approved by the MBI Board of Directors, up to \$20 million in MBI's bond funds shall be available for these grants. EOHEC awarded grants to 18 towns totaling approximately \$16.1 million.

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

The operator of the MassBroadband 123 network, KCST, Inc., formerly Axia NGNetworks, USA, Inc. ("Axia"), commenced a chapter 11 bankruptcy case on March 22, 2017 with the U.S. Bankruptcy Court, District of Massachusetts, Case No. 17-40501. Axia continues to operate the MassBroadband 123 network under contract with MassTech. Axia has obtained a loan from its parent company, Axia Net Media Corporation, to fund operating costs for an initial period while Axia determines whether it will continue to operate the network in the long-term.

On May 18, 2017, the U.S. District Court for the District of Massachusetts issued a preliminary injunction requiring Axia NetMedia Corporation to ensure the continued operation of the MassBroadband 123 middle mile network under a guaranty agreement that it signed with MassTech in 2011. This action confirms the obligation of the parent organization, Axia NetMedia, to ensure continued operation and funding of the network while its Massachusetts affiliate KCST/Axia, which was awarded a contract to manage and operate that Network in 2011, is in bankruptcy.

MassTech continues its work to identify an appropriate long-term solution to this situation.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

---

## Campus Operations

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

## Overview of the Financial Statements

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

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

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 government-wide financial statements to the governmental fund 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 summary 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 net position for fiscal years 2017 and 2016.

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

Management's Discussion and Analysis (Unaudited)  
Summary of Net Position  
June 30, 2017 and 2016

	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>						
Noncapital assets	\$ 41,301,478	\$ 16,174,721	\$ 57,476,199	\$ 45,882,335	\$ 15,755,608	\$ 61,637,943
Capital assets (net of accumulated depreciation)	65,136,137	6,193,219	71,329,356	71,743,504	6,705,646	78,449,150
Total assets	106,437,615	22,367,940	128,805,555	117,625,839	22,461,254	140,087,093
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	14,471,355	128,270	14,599,625	14,880,643	136,316	15,016,959
<b>NET POSITION</b>						
Net investment in capital assets	\$ 65,136,137	\$ 6,193,219	\$ 71,329,356	\$ 71,743,504	\$ 6,705,646	\$ 78,449,150
Restricted for:						
Massachusetts e-Health Institute	15,958,263	-	15,958,263	15,193,780	-	15,193,780
Innovation Institute	4,431,549	-	4,431,549	8,120,782	-	8,120,782
Massachusetts Broadband Institute	1,779,630	-	1,779,630	2,952,189	-	2,952,189
Economic Development	4,660,681	-	4,660,681	4,734,941	-	4,734,941
Campus Development/other corporate purposes	-	2,601,538	2,601,538	-	2,601,538	2,601,538
Unrestricted	-	13,444,913	13,444,913	-	13,017,754	13,017,754
Total net position	\$ 91,966,260	\$ 22,239,670	\$ 114,205,930	\$ 102,745,196	\$ 22,324,938	\$ 125,070,134

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

---

## Assets

MassTech's total assets were approximately \$128.8 million as of June 30, 2017, a decrease of approximately \$11.3 million from the prior year.

Mass Tech Collaborative's investment in capital assets for its governmental and business-type activities as of June 30, 2017 amounts to approximately \$71.3 million net of depreciation. The investment in capital assets includes buildings, improvements, furniture, equipment, and broadband infrastructure. The decrease in investment in capital assets for the current fiscal year was approximately \$7.1 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

Liabilities were approximately \$14.6 million as of June 30, 2017, a decrease of approximately \$0.4 million from the prior year. Of this change, approximately \$2.1 million relates to a decrease in accrued expenses and accounts payable in the Innovation Institute primarily for research and development (R&D) match and other financial assistance activities. This was offset by an increase of approximately \$1.0 million in accrued expenses and accounts payable related to MBI Last Mile and other activities, and an increase of approximately \$0.7 million in accrued expenses and accounts payable related to MeHI, primarily eQuality Incentive Program ("eQIP") milestone payments.

MassTech has no long-term debt outstanding.

## Net Position

Between fiscal years 2016 and 2017, the net position has decreased by approximately \$10.9 million to approximately \$114.2 million.

Net investment in capital assets represents approximately 62.5% of net position as of June 30, 2017. Of the remaining approximately 37.5% of MassTech's net position at June 30, 2017, approximately 3.8% is attributable to the Innovation Institute, approximately 14.0% to MEHI, approximately 1.5% to MBI, approximately 4.1% to economic development, approximately 2.3% to Campus Operations and other corporate purposes and the remaining approximately 11.8% is classified as unrestricted.

Included in the governmental activities' net position is approximately \$65.1 million which is invested in capital assets. Of this amount, \$64.8 million is related to the MassBroadband 123 network.

Restricted net position of Massachusetts e-Health Institute increased by approximately \$0.8 million as a result of the net impact of approximately \$8.5 million of Commonwealth, federal, and other funding, offset by operating expenses, financial assistance expenses and capital expenditures of approximately \$7.7 million.

Restricted net position of the Innovation Institute decreased by approximately \$3.7 million as a result of the net impact of approximately \$4.8 million in revenues, primarily from the Commonwealth, offset by operating and financial assistance expenses of approximately \$8.5 million.

Restricted net position of the MBI decreased by approximately \$1.2 million as a result of the net impact of approximately \$6.6 million in revenues, primarily from the Commonwealth, offset by operating and financial assistance expenses of approximately \$7.8 million.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

---

## Net Position...continued

Restricted net position of the Economic Development fund decreased by less than \$0.1 million, primarily as a result of funds utilized for International Enterprise Initiative activities.

The net position of the business-type activities was approximately \$22.2 million as of June 30, 2017, a decrease of approximately \$85,000 from the prior year end. The primary function of the business-type activities is the Campus Operations, the fund that relates to the development and maintenance of the 36-acre campus in Westborough, Massachusetts. Of the total net position, approximately \$6.2 million was invested in capital assets, approximately \$2.6 million was restricted for future investment in the campus and its buildings or other related purposes, and the remaining balance of approximately \$13.4 million was unrestricted.

The summary of changes in net position shows how the fiscal year activities impacted the net position. The following page contains the summary of changes in net position for the fiscal years 2017 and 2016:

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

Management's Discussion and Analysis (Unaudited)  
Summary of Changes in Net Position  
Years Ended June 30, 2017 and 2016

	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Revenue:						
State funding	\$ 18,174,258	\$ -	\$ 18,174,258	\$ 26,878,430	\$ -	\$ 26,878,430
Federal funds	-	-	-	394,591	-	394,591
Outsourced corporate services	90,000	-	90,000	75,000	-	75,000
Other revenue	1,379,724	-	1,379,724	1,283,080	-	1,283,080
Campus operations	-	844,574	844,574	-	810,347	810,347
Total revenue	19,643,982	844,574	20,488,556	28,631,101	810,347	29,441,448
Expenses:						
Innovation Institute	8,516,739	-	8,516,739	11,138,910	-	11,138,910
Massachusetts e-Health Institute	7,934,245	-	7,934,245	7,044,637	-	7,044,637
Massachusetts Broadband Institute	14,119,084	-	14,119,084	13,309,281	-	13,309,281
Economic Development	119,674	-	119,674	127,132	-	127,132
Outsourced corporate services	90,000	-	90,000	75,000	-	75,000
Campus operations	-	1,065,879	1,065,879	-	674,573	674,573
Total expenses	30,779,742	1,065,879	31,845,621	31,694,960	674,573	32,369,533
Net position	(11,135,760)	(221,305)	(11,357,065)	(3,063,859)	135,774	(2,928,085)
Investment earnings	356,824	136,037	492,861	151,935	63,905	215,840
Change in net position	(10,778,936)	(85,268)	(10,864,204)	(2,911,924)	199,679	(2,712,245)
Net position - beginning of year	102,745,196	22,324,938	125,070,134	105,657,120	22,125,259	127,782,379
Net position - end of year	\$ 91,966,260	\$ 22,239,670	\$ 114,205,930	\$ 102,745,196	\$ 22,324,938	\$ 125,070,134

# Massachusetts Technology Park Corporation

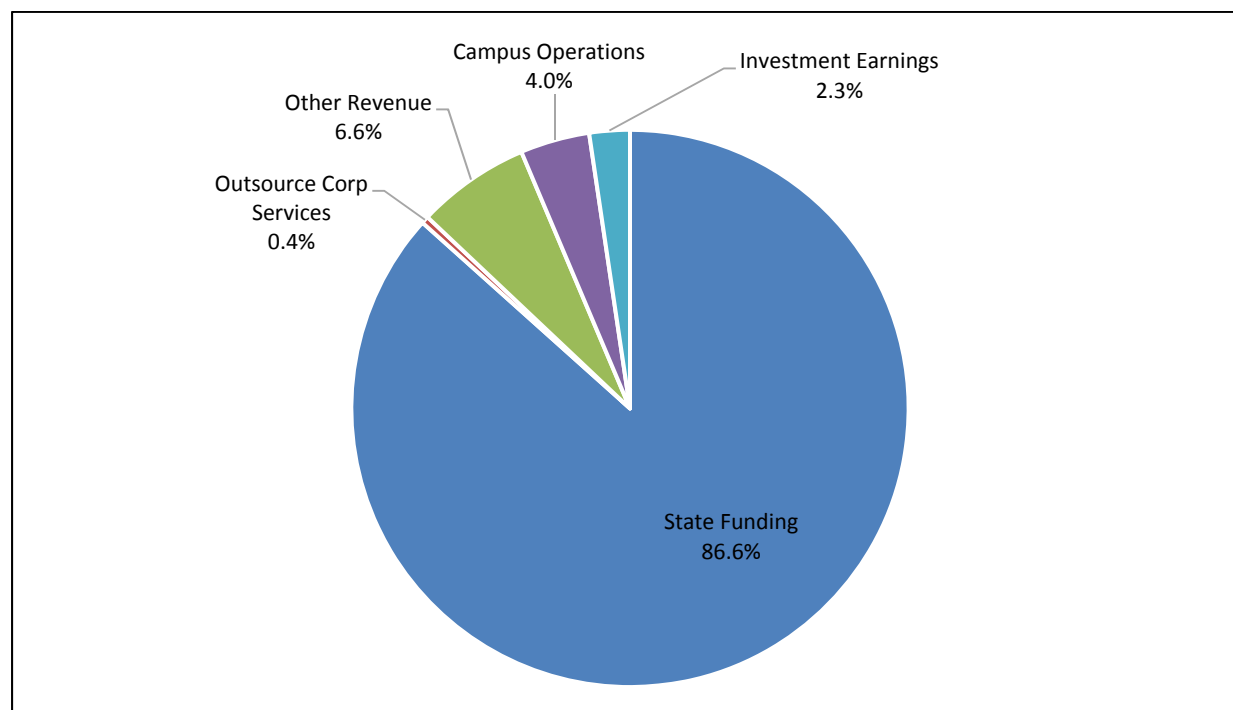
(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

Total governmental and business-type revenues, including investment earnings, were approximately \$21.0 million for the fiscal year ended on June 30, 2017, which was a decrease of approximately \$8.7 million from the prior year. The change in the revenue results from a decrease of approximately \$8.7 million in state revenue. The state funding decreased primarily due to decreased reimbursement funding for the Scientific and Technology Research and Development Matching Grant Fund and the MBI Last Mile Program, as well as decreased appropriations for the Innovation Institute, MassCAN and the MassTech Intern Partnership and Massachusetts Innovation Mentoring Initiative. Total expenses decreased by approximately \$0.5 million. MeHI's expenses increased by approximately \$0.9 million, primarily as a result of an increase in financial assistance expenses for Connected Communities and eQIP grants. MBI expenses increased by approximately \$0.8 million, primarily as a result of an increase in financial assistance expenses to Last Mile towns. The Innovation Institute's expenses decreased by approximately \$2.6 million, primarily as a result of a decrease in financial assistance expenses for the Scientific and Technology Research and Development Matching Grants.

## Revenue

The total revenues of MassTech for the fiscal year ended June 30, 2017, were \$21.0 million, including investment earnings. Total revenues break down by source as follows:



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 funds pursuant to Chapter 224 under the MeHI division. State funding also included funding for the Medicaid Services program. Other sources of revenue for fiscal year 2017 include fees from the Massachusetts Life Sciences Center for outsourced corporate services, network operator payments, rentals of campus buildings, and investment earnings.

# Massachusetts Technology Park Corporation

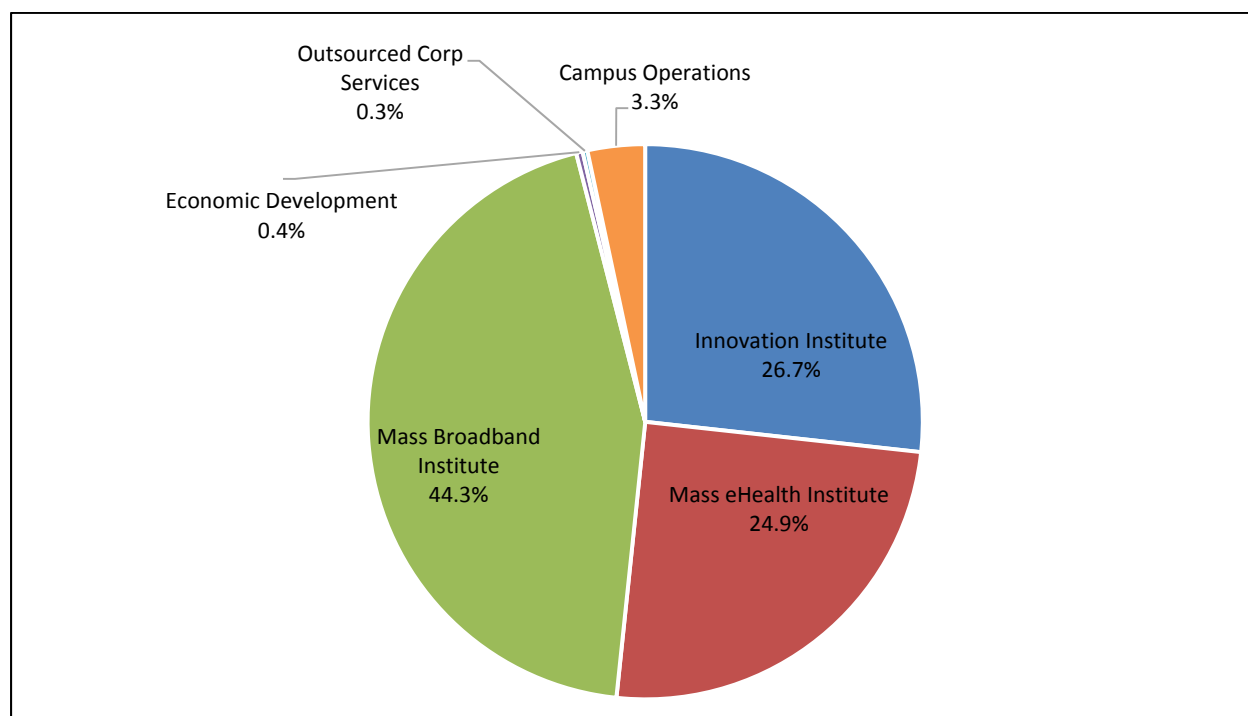
(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (Unaudited)  
Years Ended June 30, 2017 and 2016

---

## Expenses

The expenses for fiscal year 2017 were approximately \$31.8 million, which includes approximately \$11.6 million of financial assistance expenses and \$7.1 million of depreciation expense, most of which 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 2017 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 Controller.



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

Statement of Net Position  
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 13,443,371	\$ 13,443,371
Restricted cash and cash equivalents	27,717,824	2,601,538	30,319,362
Accounts receivable:			
Due from other funds	-	113,861	113,861
Other receivables	4,969,149	15,951	4,985,100
Prepaid expense and other assets	457,405	-	457,405
Cash committed for program awards:			
Cash and cash equivalents	8,157,100	-	8,157,100
Total noncapital assets	<u>41,301,478</u>	<u>16,174,721</u>	<u>57,476,199</u>
Capital assets (net of accumulated depreciation):			
Buildings	54,796	5,710,389	5,765,185
Improvements	95,726	463,403	559,129
Equipment	120,286	732	121,018
Furniture and fixtures	162,188	18,695	180,883
Fiber network	64,703,141	-	64,703,141
Total capital assets	<u>65,136,137</u>	<u>6,193,219</u>	<u>71,329,356</u>
Total assets	<u>106,437,615</u>	<u>22,367,940</u>	<u>128,805,555</u>
<b>LIABILITIES</b>			
Accounts payable	1,502,614	75	1,502,689
Accrued expenses	11,600,754	-	11,600,754
Due to other funds	113,861	-	113,861
Other liabilities	87,852	128,195	216,047
Total liabilities	<u>13,305,081</u>	<u>128,270</u>	<u>13,433,351</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Non-exchange revenue received in advance	1,166,274	-	1,166,274
Total deferred inflows of resources	<u>1,166,274</u>	<u>-</u>	<u>1,166,274</u>
<b>NET POSITION</b>			
Net investment in capital assets	65,136,137	6,193,219	71,329,356
Restricted for:			
Massachusetts e-Health Institute	15,958,263	-	15,958,263
Innovation Institute	4,431,549	-	4,431,549
Massachusetts Broadband Institute	1,779,630	-	1,779,630
Economic development	4,660,681	-	4,660,681
Campus development/other corporate purposes	-	2,601,538	2,601,538
Unrestricted	-	13,444,913	13,444,913
Total net position	<u>\$ 91,966,260</u>	<u>\$ 22,239,670</u>	<u>\$ 114,205,930</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, 2017

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	\$ 8,516,739	\$ 236,878	\$ 4,471,789	\$ (3,808,072)	\$ -	\$ (3,808,072)
Massachusetts e-Health Institute	7,934,245	1,966,685	6,355,889	388,329	-	388,329
Massachusetts Broadband Institute	14,119,084	1,339,888	5,182,853	(7,596,343)	-	(7,596,343)
Economic development	119,674	-	-	(119,674)	-	(119,674)
Outsourced corporate services	90,000	90,000	-	-	-	-
Total governmental activities	<u>30,779,742</u>	<u>3,633,451</u>	<u>16,010,531</u>	<u>(11,135,760)</u>	<u>-</u>	<u>(11,135,760)</u>
Business-type activities:						
Campus operations	1,065,879	844,574	-	-	(221,305)	(221,305)
Total business-type activities	<u>1,065,879</u>	<u>844,574</u>	<u>-</u>	<u>-</u>	<u>(221,305)</u>	<u>(221,305)</u>
Total	<u>\$ 31,845,621</u>	<u>\$ 4,478,025</u>	<u>\$ 16,010,531</u>	<u>(11,135,760)</u>	<u>(221,305)</u>	<u>(11,357,065)</u>
General Revenues:						
Investment earnings				356,824	136,037	492,861
Change in net position				(10,778,936)	(85,268)	(10,864,204)
Net position - beginning of year				102,745,196	22,324,938	125,070,134
Net position - end of year				<u>\$ 91,966,260</u>	<u>\$ 22,239,670</u>	<u>\$ 114,205,930</u>

See notes to financial statements.

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

Balance Sheet - Governmental Fund  
June 30, 2017

	<u>General Fund</u>
<b>ASSETS</b>	
Restricted cash and cash equivalents	\$ 27,717,824
Other receivables	4,969,149
Prepaid expenses and other assets	457,405
Cash committed for program awards:	
Cash and cash equivalents	<u>8,157,100</u>
 Total assets	 <u><u>\$ 41,301,478</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	
Liabilities:	
Accounts payable	\$ 1,502,614
Accrued expenses	7,570,110
Due to other funds	113,861
Other current liabilities	<u>38,770</u>
Total liabilities	<u><u>9,225,355</u></u>
Deferred inflows of resources:	
Unavailable revenue	1,720,744
Non-exchange revenue received in advance	<u>1,166,274</u>
Total deferred Inflows of resources	<u><u>2,887,018</u></u>
Fund balance:	
Non-Spendable	457,405
Committed	8,157,100
Restricted	<u>20,574,600</u>
Total fund balance	<u><u>29,189,105</u></u>
 Total liabilities, deferred Inflows of resources, and fund balance	 <u><u>\$ 41,301,478</u></u>
 Total fund balance of governmental fund	 <u><u>\$ 29,189,105</u></u>
Amounts reported for governmental funds above and those reported for governmental activities in the statement of net position are different because:	
Some liabilities are not due and payable in the current period and therefore are not reported in the fund statements	(4,079,726)
Unavailable revenues met the criteria for revenue recognition in the statement of activities	1,720,744
Capital assets used in governmental activities are not financial resources and, therefore, not reported in funds (net of accumulated depreciation)	<u>65,136,137</u>
Net position of governmental activities	<u><u>\$ 91,966,260</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, 2017

	<u>General Fund</u>
Revenue:	
State funding	\$ 17,245,436
Investment earnings	356,824
Outsourced corporate services	90,000
Other revenue	<u>1,240,111</u>
Total revenues	<u>18,932,371</u>
Expenditures:	
Innovation Institute	8,489,975
Massachusetts e-Health Institute	7,736,543
Massachusetts Broadband Institute	7,770,557
Economic development	117,052
Outsourced corporate services	<u>90,000</u>
Total expenditures	<u>24,204,127</u>
Net change in fund balance	(5,271,756)
Fund balance - beginning of year	<u>34,460,861</u>
Fund balance - end of year	<u>\$ 29,189,105</u>
Net change in fund balance - general fund	\$ (5,271,756)
Amounts reported for governmental funds above and those reported for governmental activities in the statement of activities are different because:	
Unavailable revenues met the criteria for revenue recognition in the statement of activities	1,720,744
Some revenues in the fund statements were recognized in the statement of activities in a prior year	(652,309)
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:	
Amortization of deferred rent	31,752
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of capital is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:	<u>(6,607,367)</u>
Change in net position of governmental activities	<u>\$ (10,778,936)</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, 2017

	<u>Campus Operations</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 13,443,371
Restricted cash and cash equivalents	2,601,538
Due from other funds	113,861
Prepaid expenses and other current assets	15,951
Total current assets	<u>16,174,721</u>
Capital assets:	
Buildings	20,383,318
Improvements	1,297,849
Equipment	87,191
Furniture and fixtures	171,464
Total capital assets	<u>21,939,822</u>
Less - accumulated depreciation	<u>(15,746,603)</u>
Total capital assets - net	<u>6,193,219</u>
 Total assets	 <u><u>\$ 22,367,940</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accrued expenses	\$ 75
Other liabilities	127,370
Total current liabilities	<u>127,445</u>
Noncurrent liabilities:	
Other liabilities	825
Total noncurrent liabilities	<u>825</u>
 Total liabilities	 <u>128,270</u>
<b>NET POSITION</b>	
Net investment in capital assets	6,193,219
Restricted for campus development/other purposes	2,601,538
Unrestricted	13,444,913
Total net position	<u>22,239,670</u>
 Total liabilities, deferred inflow of resources, and net position	 <u><u>\$ 22,367,940</u></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, 2017

	<u>Campus Operations</u>
Operating revenue:	
Operating lease revenue	\$ 691,567
Reimbursement from other funds	152,926
Other revenue	<u>81</u>
Total operating revenue	<u>844,574</u>
Operating expenses:	
Personnel and support services	456,935
Depreciation	<u>608,944</u>
Total expenses	<u>1,065,879</u>
Operating loss	(221,305)
Nonoperating revenue - interest income	<u>136,037</u>
Change in net position	(85,268)
Total net position - beginning of year	<u>22,324,938</u>
Total net position - end of year	<u><u>\$ 22,239,670</u></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, 2017

	<u>Campus Operations</u>
Cash flows from operating activities:	
Receipts from leases and rentals	\$ 702,761
Other operating income	81
Reimbursement from other funds	152,926
Payroll and vendor payments	<u>(437,416)</u>
Net cash provided by operating activities	418,352
Cash flows from noncapital financing activities - interfund activities	600,760
Cash flows used in capital and related financing activities - capital purchases	(96,517)
Cash flows from investing activities - interest received	<u>136,037</u>
Net increase in cash and cash equivalents	1,058,632
Cash and cash equivalents-beginning of year	<u>14,986,277</u>
Cash and cash equivalents-end of year	<u><u>\$ 16,044,909</u></u>
Displayed as:	
Cash and cash equivalents	\$ 13,443,371
Restricted cash and cash equivalents	<u>2,601,538</u>
	<u><u>\$ 16,044,909</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (221,305)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	608,944
Changes in assets and liabilities:	
Accounts receivables	12,320
Prepaid Expenses	27,265
Accrued expenses	(7,680)
Other liabilities	<u>(1,192)</u>
Net cash provided by operating activities	<u><u>\$ 418,352</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, 2017

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Reporting Entity

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

Mass Tech is responsible for the oversight of:

- (i) The Innovation Institute at MassTech (the “Innovation Institute”), a technology and innovation economic development effort, identifying key opportunities for economic growth and supporting industry-led growth initiatives within the high 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) International Enterprise Initiative (“IEI”), focused on international economic development activities for the technology sector in Massachusetts;
- (v) A 36-acre campus and its related operations.

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

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



# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

### Government-Wide and Fund-Level Financial Statements

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

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

The Organization reports the following major governmental fund:

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

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 and related development.

### Measurement Focus, Basis of Accounting, and Financial Reporting Presentation

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

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

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

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

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

### Budgets and Appropriations

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

### Cash and Cash Equivalents

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

### Cash and Cash Equivalents – Committed for Program Awards

Such amounts represent cash and cash equivalents held by MassTech to be expended for certain programmatic purposes based upon specific awards approved by the Chief Executive Officer, the Board, or appropriate committee in accordance with the particular program's legislative intent.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

### Investments

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

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenues, expenses and changes in net position. None of MassTech's investments in 2017 and 2016 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, 2017.

### Capital Assets

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

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

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

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

### Deferred Inflows of Resources

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

### Net Position

- Net investment in capital assets – Net investment in capital assets represent net position consisting of capital assets, net of accumulated depreciation. At June 30, 2017, the government-wide statement of net position reports approximately \$71.3 million of net investments in capital assets.
- Restricted – Restricted net position represents net position that is not available as it's legally restricted by enabling legislation or by outside parties for use for a specific purpose. Specifically, the Organization's restricted net position is restricted for use in the Innovation Institute, MeHI, MBI, other legislatively approved mandates, and for other purposes related to the operations of the campus and for programmatic development. At June 30, 2017, the government-wide statement of net position reports approximately \$29.4 million of restricted net position.
- Unrestricted – Unrestricted net position represents net position that is not subject to legal restrictions imposed by enabling legislation or by outside parties for use for a specific purpose. Unrestricted net position may be designated for specific purposes by action of management or the Board or may otherwise be limited by contractual agreements with outside parties. As of June 30, 2017, the government-wide statement of net position reports approximately \$13.4 million of unrestricted net position.

### Fund Balance

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

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

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

### Fund Balance...continued

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

### Net Position and Fund Flow Assumption

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

### Income Taxes

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

### Use of Estimates

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

### Recently Issued Accounting Pronouncements

In December 2015, GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The provisions of this standard are effective for reporting periods beginning after June 15, 2016 and have been reflected in the measurement of MassTech’s investments that qualify for classification as cash equivalents outlined in Note 2.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

### Recently Issued Accounting Pronouncements...continued

In November 2016 GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is permitted. MassTech is currently evaluating the impact this pronouncement will have on the financial statements.

In March 2017, GASB issued GASB Statement No. 85, *Omnibus 2017*, which addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and recognition of on-behalf payment for pensions and other postemployment benefits. The provisions of this standard are effective for reporting periods beginning after June 15, 2017. Early adoption is permitted. MassTech is currently evaluating the impact this pronouncement will have on the financial statements.

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

## 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 2017, 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.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

## 2. CASH AND CASH EQUIVALENTS...continued

At June 30, 2017, bank deposits were \$613,165 which excludes the amount held in the Massachusetts Municipal Depository Trust ("MMDT" or the "Trust"). Of that amount \$250,000 was not exposed to custodial credit risk as uninsured and uncollateralized because it was insured by the FDIC. The remaining balance of \$363,165 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, 2017 at MMDT was solely in the cash portfolio. The cash portfolio is not registered with the Securities and Exchange Commission as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which amends Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. At June 30, 2017 MassTech's deposits with MMDT totaled \$51,809,014. 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:

	<u>2017</u>
Cash balance	\$ 110,819
Massachusetts Municipal Depository Trust ("MMDT") - Cash Portfolio	<u>51,809,014</u>
	<u>\$ 51,919,833</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.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

Year Ended June 30, 2017

## 2. CASH AND CASH EQUIVALENTS...continued

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.

## 3. CAPITAL ASSETS

Capital assets of MassTech at June 30, 2017 are summarized as follows:

	Governmental Activities	Business- Type Activities	Total
Buildings	\$ 91,803	\$ 20,383,318	\$ 20,475,121
Improvements	500,058	1,297,849	1,797,907
Equipment	780,541	87,191	867,732
Furniture and fixtures	504,175	171,464	675,639
Fiber network - outside plant	54,974,809	-	54,974,809
Conduit	6,150,120	-	6,150,120
Poles	177,568	-	177,568
Indefeasible right of use	4,243,317	-	4,243,317
Points of interconnection	13,278,406	-	13,278,406
Community anchor institutions	6,370,251	-	6,370,251
Other equipment	765,879	-	765,879
Spares MB123	1,073,725	-	1,073,725
	<u>88,910,652</u>	<u>21,939,822</u>	<u>110,850,474</u>
Less - accumulated depreciation:			
Buildings	(37,007)	(14,672,929)	(14,709,936)
Improvements	(404,332)	(834,446)	(1,238,778)
Equipment	(660,255)	(86,459)	(746,714)
Furniture and fixtures	(341,987)	(152,769)	(494,756)
Fiber network - outside plant	(9,915,438)	-	(9,915,438)
Conduit	(1,074,032)	-	(1,074,032)
Poles	(30,627)	-	(30,627)
Indefeasible right of use	(680,432)	-	(680,432)
Points of interconnection	(4,913,596)	-	(4,913,596)
Community anchor institutions	(4,381,650)	-	(4,381,650)
Other equipment	(690,924)	-	(690,924)
Spares MB123	(644,235)	-	(644,235)
	<u>(23,774,515)</u>	<u>(15,746,603)</u>	<u>(39,521,118)</u>
Capital assets - net	<u>\$ 65,136,137</u>	<u>\$ 6,193,219</u>	<u>\$ 71,329,356</u>



# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

### 3. CAPITAL ASSETS...continued

Total depreciation expense for the year ended June 30, 2017, was \$7,134,950. Of that amount, \$6,526,007 (comprising approximately \$41,971, \$227,335, \$6,253,137 and \$3,564 in the Innovation Institute, MeHI, MBI, and IEI, respectively) is reported in the governmental activities and \$608,944 is reported in the business-type activities.

<u>Governmental Activities</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Transfers/ Disposals/ Adjustments</u>	<u>Balance June 30, 2017</u>
Buildings	\$ 91,803	\$ -	\$ -	\$ 91,803
Improvements	615,462	-	(115,404)	500,058
Equipment	1,028,596	31,110	(279,165)	780,541
Furniture and fixtures	532,170	-	(27,995)	504,175
Fiber network - outside plant	54,920,138	54,671	-	54,974,809
Conduit	6,150,120	-	-	6,150,120
Poles	177,568	-	-	177,568
Indefeasible rights of use	4,243,317	-	-	4,243,317
Points of interconnection	13,278,406	-	-	13,278,406
Community anchor institution	6,362,509	7,742	-	6,370,251
Other equipment	765,879	-	-	765,879
Spares MB123	1,073,725	-	-	1,073,725
Construction-in-process	174,883	(174,883)	-	-
	<u>89,414,576</u>	<u>(81,360)</u>	<u>(422,564)</u>	<u>88,910,652</u>
Less - accumulated depreciation:				
Building	(34,353)	(2,654)	-	(37,007)
Improvement	(471,226)	(48,510)	115,404	(404,332)
Equipment	(744,496)	(194,924)	279,165	(660,255)
Furniture and fixtures	(300,986)	(68,996)	27,995	(341,987)
Fiber network - outside plant	(7,166,246)	(2,749,192)	-	(9,915,438)
Conduit	(766,526)	(307,506)	-	(1,074,032)
Poles	(21,749)	(8,878)	-	(30,627)
Indefeasible rights of use	(510,699)	(169,733)	-	(680,432)
Points of interconnection	(3,585,456)	(1,328,140)	-	(4,913,596)
Community anchor institution	(3,102,097)	(1,279,553)	-	(4,381,650)
Other equipment	(537,748)	(153,176)	-	(690,924)
Spares MB123	(429,490)	(214,745)	-	(644,235)
	<u>(17,671,072)</u>	<u>(6,526,007)</u>	<u>422,564</u>	<u>(23,774,515)</u>
Property and equipment - net	<u>\$ 71,743,504</u>	<u>\$ (6,607,367)</u>	<u>\$ -</u>	<u>\$ 65,136,137</u>

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

### 3. CAPITAL ASSETS...continued

<u>Business -Type Activities</u>	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Transfers/ Disposals/ Adjustments</u>	<u>Balance June 30,2017</u>
Buildings	\$ 20,383,318	\$ -	\$ -	\$ 20,383,318
Improvements	1,496,499	95,554	(294,204)	1,297,849
Equipment	1,038,298	963	(952,070)	87,191
Furniture and fixtures	318,221	-	(146,757)	171,464
	<u>23,236,336</u>	<u>96,517</u>	<u>(1,393,031)</u>	<u>21,939,822</u>
Less - accumulated depreciation:				
Building	(14,165,535)	(507,394)	-	(14,672,929)
Improvement	(1,031,264)	(97,386)	294,204	(834,446)
Equipment	(1,038,298)	(231)	952,070	(86,459)
Furniture and fixtures	(295,593)	(3,933)	146,757	(152,769)
	<u>(16,530,690)</u>	<u>(608,944)</u>	<u>1,393,031</u>	<u>(15,746,603)</u>
Property and equipment - net	<u>\$ 6,705,646</u>	<u>\$ (512,427)</u>	<u>\$ -</u>	<u>\$ 6,193,219</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, 2017 pension expense was \$981,440.

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, 2017, MassTech's total contributions were \$153,044 of which \$120,208 was vested. These contributions were based on employee contributions of \$494,038.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

## 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 are as follows:

<u>Fiscal Years</u>	<u>Amount</u>
2018	\$ 641,000
2019	640,000
2020	637,000
2021	637,000
2022	632,500
Thereafter	<u>481,500</u>
	<u>\$ 3,669,000</u>

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, 2017, these reimbursements are included in operating lease revenue and amounted to \$59,414.

In accordance with the Lease, the lessee deposited \$125,000 with MassTech. These funds are included in other liabilities in the accompanying statement of net position for the proprietary fund at June 30, 2017.

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

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

<u>Fiscal Years</u>	<u>Amount</u>
2018	\$ 325,851
2019	334,840
2020	<u>84,272</u>
	<u>\$ 744,963</u>

In accordance with the Boston Lease, MassTech deposited \$51,687 with Lessor. These funds are included in prepaid and other assets in the accompanying statement of net position at June 30, 2017.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

## 6. RISK MANAGEMENT

MassTech is exposed to various risks of loss related to general property and casualty losses. Accordingly, MassTech's property and equipment are covered by commercial package insurance policies.

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

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

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

## 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, 2017, consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Campus operations	General fund	<u>\$ 113,861</u>

Interfund transfers activity was \$152, 926 at June 30, 2017.

## 8. CONTINGENCIES

### Design-Build Dispute

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

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

---

## 8. CONTINGENCIES...continued

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

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

On March 29, 2016, the Court granted MassTech's aforesaid motion for summary judgment and dismissed G4S's \$14 million of claims against MassTech on grounds of intentional breach. Thereafter, in early 2017, the Court entered a final judgment in favor of MassTech dismissing those claims with prejudice. G4S has appealed that final judgment to the Massachusetts Supreme Judicial Court, and that appeal is pending.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

---

## 8. CONTINGENCIES...continued

### Network Operator Dispute

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

On March 22, 2017, Axia, which by then had changed its name to KCST USA, Inc. ("KCST"), filed a Chapter 11 bankruptcy case, entitled *In re KCST, USA, Inc.*, Case No. 17-40501 (U.S. Bankruptcy Court for the District of Massachusetts) (the "Bankruptcy Case"), in which it has now asserted its aforesaid claims against MassTech, in the amount of \$18 million (which MassTech denies), in an Adversary Proceeding. MassTech, in turn, has submitted its own Proof of Claim against KCST in the Bankruptcy Case in the amount of approximately \$31 million, to which KCST has not yet responded, and has moved to compel arbitration of both sets of claims. The Bankruptcy Court has not yet ruled on that motion. If KCST continues to pursue its claims against MassTech, either in arbitration or in the Bankruptcy Court, MassTech intends to vigorously defend against them, and pursue its counterclaims against KCST at the same time.

# Massachusetts Technology Park Corporation

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements  
Year Ended June 30, 2017

---

## 8. CONTINGENCIES...continued

Also, when 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 that had been provided to MassTech six (6) years earlier, on February 25, 2011, by KCST's indirect parent company Axia NetMedia Corporation (the "Guaranty"). 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 a subsequent Order, dated June 9, 2017, compelling it to turn over certain access codes to the Network to MassTech.

## 9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 8, 2017.

In the Axia Action, MassTech renewed its Motion to Compel Arbitration 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 a substantial claim that it has against Axia NetMedia for bad faith breach of the Guaranty, with the American Arbitration Association ("AAA"). That arbitration is now pending.

**Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

**Independent Auditor's Report**

To the Board of Directors of  
Massachusetts Technology Park Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities and each major fund of the Organization 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, 2017, and the related notes to the financial statements, which collectively comprise Organization's basic financial statements, and have issued our report thereon dated November 8, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

Boston, Massachusetts  
November 8, 2017