

**Massachusetts Technology
Development Corporation
d/b/a MassVentures**

Financial Statements

Years Ended June 30, 2018 and 2017

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d/b/a MassVentures
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Massachusetts Technology Development Corporation
d/b/a MassVentures
(a component unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
For the Years Ended June 30, 2018 and 2017

Unaudited

The following discussion and analysis provides management's overview of the financial position of the Massachusetts Technology Development Corporation, d/b/a MassVentures (the Corporation) as of June 30, 2018 and 2017, and the results of its operations and cash flows for the years then ended. This management's discussion and analysis is unaudited and should be read in conjunction with the Corporation's audited financial statements and notes, which are attached hereto.

General Overview

The purpose of the Corporation is to provide financial and other assistance to innovative technology-based enterprises in Commonwealth of Massachusetts (the "Commonwealth") that have the potential to expand and generate new jobs and tax revenues. The Corporation seeks to i) target technologies, regions and companies that are not adequately served by private investors; ii) complement, not compete with, private venture and angel investors and leverage the Corporation's investment dollar with private capital; and iii) nurture entrepreneurship among the citizens of the Commonwealth to stimulate long-term economic development. The Corporation seeks to realize appropriate financial returns to enable it to be self-sufficient. The Corporation is governed by a Board of Directors consisting of eleven members, eight of whom are appointed by the Governor of Massachusetts from the private sector and three of whom are public officials. In June 2012, the Corporation began doing business as MassVentures.

Enabling Legislation and Funding Sources

The Corporation was created as a body politic and instrumentality of the Commonwealth on October 19, 1978, pursuant to Chapter 497 of the Acts of 1978.

The Corporation's original investment funds were provided in 1979 by a \$2,000,000 grant (including \$28,000 in start-up costs) from the Economic Development Administration ("EDA"), U.S. Department of Commerce. Under this grant, the Corporation makes loans from a revolving loan fund to eligible borrowers, defined as Massachusetts-based businesses with operations involving a significant amount of technology, which are located in EDA Title IV redevelopment areas and which meet the requirements of the Corporation's enabling act.

During the year ended June 30, 1981, the Corporation was awarded a \$1,000,000 grant under the Corporations for Innovation Development ("CID") program of the U.S. Department of Commerce. The grant award was for the purpose of establishing a second revolving loan fund to assist in the creation and development of small, innovative high-technology companies in Massachusetts. In addition, the Commonwealth appropriated \$1,000,000 to the Corporation as matching funds for the federal grant. The Commonwealth appropriation is restricted to equity investment. The CID program was cancelled during the year ended June 30, 2003. Restricted cash for investment programs of \$407,839 was returned to the U.S. Department of Commerce representing their portion of the remaining grant.

Each year from fiscal years 1982 to 1988, the Commonwealth appropriated additional amounts to supplement the Corporation's investment fund. There were no geographical limitations within Massachusetts for these funds. The Commonwealth appropriated additional amounts to the Corporation's investment fund of \$5,000,000 in fiscal year 2004, \$2,500,000 in fiscal year 2007 and \$1,000,000 in fiscal year 2015. The cumulative amount of all appropriations received from the initial funding in 1981 through June 30, 2018 totaled \$13,700,000.

Under the terms of the grants of investment funds from the federal government and the Commonwealth, principal repayments and costs recovered are returned to the Restricted for Investment Programs Fund to be reinvested in accordance with the criteria required by the grants' provisions and the Corporation's enabling legislation and policies. In addition, the Corporation has transferred \$48,700,379 cumulatively through fiscal year 2018 to the Restricted for Investment Programs Fund to be reinvested in accordance with the criteria required by the Corporation's enabling legislation and policies. The transferred funds were derived from earnings and gains realized on past investments by the Corporation.

Financial Statements

The Corporation's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

The *Statement of Net Position* presents the financial position of the Corporation. It provides information about the nature and the amount of resources (assets), plus deferred outflows of resources (as applicable), obligations (liabilities), plus deferred inflows of resources (as applicable), and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *Statement of Revenues, Expenditures, and Changes in Net Position* presents information showing how the Corporation's net position changed during the fiscal year presented. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The change in net position may be useful in assessing whether the financial position improved or deteriorated for the year.

The *Statement of Cash Flows* presents the cash activities segregated by the three major cash flow categories: general support activities, capital activities, and restricted for investment program activities. This statement may be useful in determining changes in liquidity and in understanding how cash and cash equivalents were used during the years presented.

The notes to the financial statements describe significant accounting policies adopted by the Corporation and provide additional information that is essential to a full understanding of the data presented in the financial statements.

Financial Highlights

- Total assets of the Corporation decreased from \$27,627,704 at June 30, 2017 to \$21,387,162 at June 30, 2018 primarily due to a decrease in the unrealized value of the Corporation's investments offsetting the increase in cash resulting from realized gains on the sale of the Corporation's assets.
- During the year ended June 30, 2018, the Corporation made new investments totaling \$1,795,128 and had realized gains or losses on investments with a cost basis of \$1,840,981.

Financial Highlights (continued)

- The cost of investments held decreased from \$10,973,800 at June 30, 2017 to \$10,937,693 at June 30, 2018 primarily due to the cost of realized investments in fiscal year 2018 exceeding the cost of new investments made during the fiscal year.
- The Corporation made \$3,400,000 of grant awards during the year ended June 30, 2018 under its SBIR Targeted Technologies (“START”) Program, as compared to \$3,400,000 in START awards during the year ended June 30, 2017.

Financial Analysis

Statement of Net Position

Statement of Net Position

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
	<u>Total</u>	<u>Total</u>
Total Investments, at market	\$ 7,692,832	\$ 19,754,951
Total Assets	21,387,162	27,627,704
Total Liabilities	337,041	3,727,818
Total Fund Balance	21,050,121	23,899,885
Total Liabilities and Fund Balance	<u>\$ 21,387,162</u>	<u>\$ 27,627,704</u>

Total assets decreased \$6,240,542 in the current year, primarily due to the decrease in the carrying value of the Corporation’s investments and the decrease in START awards receivable as funds were received prior to year-end in fiscal 2018.

Total liabilities decreased \$3,390,778 in the current year primarily as a result of the decrease in grants payable as grants were paid out prior to year-end in fiscal 2018.

Total fund balance decreased \$2,849,764 in the current year primarily due the excess of net unrealized losses on investments in addition to the Corporations interest revenue and other income exceeding the net realized gains and expenses of the Corporation for the current year.

Investment and Grants

The Corporation provides financial assistance to innovative technology-based enterprises in Commonwealth. Financial assistance may come in the form of grants, equity investments or debt investments. During the fiscal year ended June 30, 2018, the Corporation provided a total of \$5,195,128 in assistance consisting of \$3,400,000 in START awards and \$1,795,128 in equity and debt investments. Financial assistance in fiscal 2018 increased by \$811,300 as compared to fiscal 2017 primarily as a result of an increase in equity and debt investments.

Statement of Revenues, Expenditures and Changes in Net Position

Statement of Revenues, Expenditures and Changes in Net Position

	Fiscal year ended June 30	
	2018	2017
Other income	\$ 275,000	\$ 275,000
Interest revenue	204,385	56,681
Total Revenue	479,385	331,681
Operating expenses	1,550,290	1,324,388
Operating loss	(1,070,905)	(992,707)
Grants received	3,400,000	3,400,000
Grants disbursed	3,400,000	3,400,000
Net grants	-	-
Net realized gains (losses) on investments	10,247,153	(811,210)
Net unrealized gains (losses) on investments	(12,026,012)	2,121,965
Total net gains	(1,778,859)	1,310,755
Increase (Decrease) in Fund Balance	\$ (2,849,764)	\$ 318,048
Fund Balance, beginning of year	\$ 23,899,855	\$ 23,581,837
Fund Balance, end of year	\$ 21,050,121	\$ 23,899,885

The operating loss increased by \$78,198 in the current year primarily due to the increase in expenses more than offsetting an increase in interest income as a result of higher interest rates.

Operating expenses include all personnel, occupancy, professional and consulting, START administration and all other business expenses associated with the Corporation's operations.

Total net gains decreased by \$3,089,614 in the current year primarily due to the change in net unrealized gains.

Statement of Cash Flows

Statement of Cash Flows

	<u>Fiscal year ended June 30</u>	
	<u>2018</u>	<u>2017</u>
Net cash general support activities	\$ (3,068,100)	\$ 1,201,110
Net cash capital activities	(1,237)	(4,253)
Net cash restricted for investment programs activities	10,283,261	(647,360)
Net increase in cash and cash equivalents	7,213,924	549,497
Cash and cash equivalents, beginning of year	6,370,286	5,820,789
Cash and cash equivalents, end of year	<u>\$ 13,584,210</u>	<u>\$ 6,370,286</u>

Cash and cash equivalents were \$13,584,210 at June 30, 2018 compared to \$6,370,286 at June 30, 2017. This \$7,213,924 increase is due primarily to an increase in cash due to the realization of certain portfolio investments.

Net cash restricted for investment programs activities for the year ended June 30, 2018 consists of \$1,795,128 in equity and debt investments made into innovative technology-based enterprises by the Corporation and \$1,840,981 in proceeds received from the sale or retirement of equity and debt investments. Net cash restricted for investment programs activities for the year ended June 30, 2017 consists of \$983,828 in equity and debt investments made into innovative technology-based enterprises by the Corporation and \$336,468 in proceeds received from the sale or retirement of equity and debt investments.

Requests for Information

The Corporation's financial statements are designed to present readers with a general overview of the Corporation's finances. Additional financial information, including official statements relating to the Corporation's investments and programs can be found on the Corporation's website www.mass-ventures.com. Questions concerning the financial statements or requests for additional financial information should be addressed to the President, MassVentures, 308 Congress Street, 5th Floor, Boston, Massachusetts 02210.



Katz, Nannis + Solomon, PC
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Massachusetts Technology Development Corporation
d/b/a MassVentures
Boston, Massachusetts

We have audited the accompanying financial statements of Massachusetts Technology Development Corporation d/b/a MassVentures (the "Corporation"), which comprise the statements of net position, as of June 30, 2018 and 2017, and the related statements of revenues, expenditures and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balance of Massachusetts Technology Development Corporation d/b/a MassVentures as of June 30, 2018 and 2017, and the results of its operations, and changes in its fund balance, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages i through v 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.

Katz, Neenan + Solomon, P.C.

October 15, 2018
Waltham, Massachusetts

Massachusetts Technology Development Corporation
d/b/a MassVentures
Statements of Net Position
June 30,

	2018	2017
Assets		
General Support		
Cash, cash equivalents and short-term investments	\$ 10,170,757	\$ 1,002,685
Prepaid expenses and deposits	22,731	22,890
Office equipment and software at cost, less accumulated depreciation and amortization of \$58,047 in 2018 and \$51,212 in 2017	34,808	31,343
Capitalized interest on note conversion	52,581	48,234
Internally designated - cash, cash equivalents and short-term investments	231,615	231,615
Total General Support	10,512,492	1,336,767
Restricted for Investment Programs		
Investments, at cost	10,937,693	10,973,800
Unrealized net gain (loss) on investments	(3,244,861)	8,781,151
Total Investments, at Market	7,692,832	19,754,951
Internally designated - cash, cash equivalents and short-term investments	3,181,838	5,135,986
Grants receivable	-	1,400,000
Total Restricted for Investment Programs	10,874,670	26,290,937
Total Assets	\$ 21,387,162	\$ 27,627,704
Liabilities and Fund Balances		
General Support		
Accounts payable and accrued liabilities	\$ 323,633	\$ 326,175
Distribution payable to Commonwealth of Massachusetts	1,644	1,644
Lease payable, net of long term portion	3,064	-
Lease payable, long term portion	8,700	-
Fund balance	10,175,451	1,008,948
Total General Support	10,512,492	1,336,767
Commitments and Contingencies (Note J)	-	-
Restricted for Investment Programs		
SBIR grants payable	-	3,400,000
Fund balance	10,874,670	22,890,937
Total Restricted for Investment Programs	10,874,670	26,290,937
Total Liabilities and Fund Balances	\$ 21,387,162	\$ 27,627,704

See accompanying notes.

Massachusetts Technology Development Corporation
d/b/a MassVentures
Statements of Revenues, Expenditures and Changes in Net Position
Years Ended June 30,

	2018			2017		
	General Support	Restricted for Investment Programs	Total	General Support	Restricted for Investment Programs	Total
Revenues						
Realized gains on equity investments	\$ 10,237,408	\$ -	\$ 10,237,408	\$ 174,542	\$ -	\$ 174,542
Realized gains (losses) on debt equity & investments	-	9,745	9,745	-	(985,752)	(985,752)
Change in unrealized net gain (loss) on investments	-	(12,026,012)	(12,026,012)	-	2,121,965	2,121,965
Grants from Massachusetts Clean Energy Technology Center	-	400,000	400,000	-	400,000	400,000
Grants from Mass Growth Capital Corporation	-	3,000,000	3,000,000	-	3,000,000	3,000,000
Interest	204,385	-	204,385	56,681	-	56,681
Management fees and other	275,000	-	275,000	275,000	-	275,000
Total Revenues	10,716,793	(8,616,267)	2,100,526	506,223	4,536,213	5,042,436
Expenditures						
Grants	-	3,400,000	3,400,000	-	3,400,000	3,400,000
General support	1,550,290	-	1,550,290	1,324,388	-	1,324,388
Total Expenditures	1,550,290	3,400,000	4,950,290	1,324,388	3,400,000	4,724,388
Excess (Deficiency) of Revenues Over Expenditures	9,166,503	(12,016,267)	(2,849,764)	(818,165)	1,136,213	318,048
Interfund transfers	-	-	-	-	-	-
Fund balances, beginning of year	1,008,948	22,890,937	23,899,885	1,827,113	21,754,724	23,581,837
Fund Balances, End of Year	\$ 10,175,451	\$ 10,874,670	\$ 21,050,121	\$ 1,008,948	\$ 22,890,937	\$ 23,899,885

See accompanying notes.

Massachusetts Technology Development Corporation
d/b/a MassVentures
Statements of Cash Flows
Years Ended June 30,

	2018				2017			
	General Support		Restricted for Investment Programs	Total	General Support		Restricted for Investment Programs	Total
	Unrestricted	Internally Designated			Unrestricted	Internally Designated		
General Support Activities								
Excess (deficiency) of revenues over expenses	\$ 9,166,503	\$ -	\$ (12,016,267)	\$ (2,849,764)	\$ (818,165)	\$ -	\$ 1,136,213	\$ 318,048
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash general support activities:								
(Gain) loss on sales of investments	(10,237,408)	-	(9,745)	(10,247,153)	(174,542)	-	985,752	811,210
Change in unrealized net (gain) loss on investments	-	-	12,026,012	12,026,012	-	-	(2,121,965)	(2,121,965)
Depreciation and amortization	9,535	-	-	9,535	8,792	-	-	8,792
Increase (decrease) in cash from:								
SBIR grants payable	-	-	(3,400,000)	(3,400,000)	-	-	400,000	400,000
Grants receivable	-	-	1,400,000	1,400,000	-	-	1,600,000	1,600,000
Receivable for management fees	-	-	-	-	212,500	-	-	212,500
Prepaid expenses and deposits	160	-	-	160	(1,091)	-	-	(1,091)
Accrued interest on notes receivable and capitalized interest	(4,347)	-	-	(4,347)	(6,801)	-	-	(6,801)
Accounts payable and accrued liabilities	(2,542)	-	-	(2,542)	(19,583)	-	-	(19,583)
Net Cash General Support Activities	(1,068,099)	-	(2,000,000)	(3,068,099)	(798,890)	-	2,000,000	1,201,110
Capital Activities								
Purchase of office equipment and leasehold improvements	-	-	-	-	(4,253)	-	-	(4,253)
Payments of capital lease obligations	(1,237)	-	-	(1,237)	-	-	-	-
Net Cash Capital Activities	(1,237)	-	-	(1,237)	(4,253)	-	-	(4,253)
Restricted for Investment Programs Activities								
Purchases of investments	-	-	(1,795,129)	(1,795,129)	-	-	(983,828)	(983,828)
Proceeds of investments								
Gains	10,237,408	-	-	10,237,408	174,542	-	-	174,542
Costs recovered from equity investments	-	-	1,840,981	1,840,981	-	-	151,926	151,926
Principal repayments from fixed income investments	-	-	-	-	-	-	10,000	10,000
Net Cash Restricted for Investment Programs Activities	10,237,408	-	45,852	10,283,260	174,542	-	(821,902)	(647,360)
Increase (Decrease) in Cash, Cash Equivalents and Short-Term Investments	9,168,072	-	(1,954,148)	7,213,924	(628,601)	-	1,178,098	549,497
Cash, cash equivalents and short-term investments, beginning of year	1,002,685	231,615	5,135,986	6,370,286	1,631,286	231,615	3,957,888	5,820,789
Cash, Cash Equivalents and Short-Term Investments, End of Year	\$ 10,170,757	\$ 231,615	\$ 3,181,838	\$ 13,584,210	\$ 1,002,685	\$ 231,615	\$ 5,135,986	\$ 6,370,286
Supplemental Disclosure of Noncash Financing:								
Conversion of fixed income investments to equity investments	\$ -	\$ -	\$ 321,817	\$ 321,817	\$ -	\$ -	\$ 120,000	\$ 120,000

See accompanying notes.

Massachusetts Technology Development Corporation
d/b/a MassVentures
Notes to Financial Statements
June 30, 2018 and 2017

A. Description of Business

Massachusetts Technology Development Corporation d/b/a MassVentures (the “Corporation”) was created as a body politic and instrumentality of The Commonwealth of Massachusetts (the “Commonwealth”) on October 19, 1978, pursuant to Chapter 497 of the Acts of 1978. The purpose of the Corporation is to provide financial and other assistance to innovative enterprises in Massachusetts that have the potential to expand and generate new jobs and tax revenues. The Corporation is governed by a Board of Directors consisting of eleven members, eight of whom are appointed by the Governor of Massachusetts from the private sector and three of whom are public officials. In June 2012, the Corporation began doing business as MassVentures.

B. Summary of Significant Accounting Policies

1. Basis of presentation and accounting - The financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to a government unit considered to be a “proprietary fund.” Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The Government Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Fund balances (i.e., total net assets) are segregated into General Support and Restricted for Investment Programs components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

The accrual basis of accounting is utilized for all funds. Under this method, revenues are recorded when earned and expenses are recorded at the time the related liability is incurred.

2. Fund accounting - Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration.
3. Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America as applied to government units requires management to make estimates and assumptions that affect the reported amounts of assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.
4. Cash and cash equivalents - The Corporation considers all highly liquid investments purchased with an original maturity or remaining maturity at date of purchase of three months or less to be cash equivalents.
5. Short-term investments - Short-term investments consist of bankers acceptances and certificates of deposit with original maturities in excess of three months but less than one year and are valued at amortized cost, which approximates market.

Massachusetts Technology Development Corporation
d/b/a MassVentures
Notes to Financial Statements
June 30, 2018 and 2017

B. Summary of Significant Accounting Policies (continued)

6. Office equipment, software, depreciation and amortization - Office equipment and software are stated at cost. Office equipment and software are depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from three to five years. Depreciation and amortization expense for the years ended June 30, 2018 and 2017, amounted to \$9,535 and \$8,792, respectively.

Upon retirement or sale, the cost of the assets disposed and the related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is included in the determination of the excess (deficiency) of revenues over expenses.

7. Investments - The Corporation's investment securities are purchased in the name of the Corporation and are maintained in a safe at the MassVentures or electronically by the underlying company. These available for sale investments are generally in early-stage technology companies.

The Corporation applies GASB Statement No. 31 ("GASB 31"), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB 31 requires entities to carry investments at fair value if such values are readily available. Accordingly, unrestricted publicly traded securities are carried at fair value.

In general, the value of a private investment is adjusted up or down to conform to the price paid on an "arms-length" basis by a sophisticated new third-party investor in any subsequent round of financing. Additionally, an investment may be written down because of a lack of sustained level of performance or permanent impairment in value.

Securities that are traded over the counter are valued at the average of the bid price at the close of business for the valuation date and the preceding two days less a discount, if any, as determined by management. Securities that are publicly traded on a stock exchange are valued at the average of the close for the valuation date and the preceding two days less a discount, if any, as determined by management. To the extent that a legal or contractual restriction is specific to (and an attribute of) the security and therefore, would transfer to a market participant, then it would be appropriate to consider such restriction in the determination of fair value of the security.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Corporation's investments are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy, and its applicability to the Corporation's investments, are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Massachusetts Technology Development Corporation
d/b/a MassVentures
Notes to Financial Statements
June 30, 2018 and 2017

B. Summary of Significant Accounting Policies (continued)

7. Investments (continued) -

Level 2 - Quoted prices for similar assets or liabilities, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to the security.

Level 3 - Pricing inputs are unobservable for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private investments that are supported by little or no market activity. There are multiple valuation techniques that the Company would use depending on the stage of development, level of revenue and size of the company. Those valuation techniques are as follows:

- Last transaction price - If the current date is within a reasonable period of time of the acquisition date or the last round of financing date then the acquisition cost or last transaction value will be used as fair value. For the last transaction price to be a valid indicator of value, such round of financing should either be priced by a new investor or made by existing shareholders at approximated fair value. When considering if a reasonable period of time has passed the investment staff should assess whether the stage or size of the company has materially changed since the time of the financing.
- Market approach - This approach determines fair value using prices and other relevant information generated by market transactions involving identical or comparable assets, including market multiples on sales/earnings of publically traded companies or acquisition of private companies. In practice, this information may be gleaned from 409a or other company valuation studies conducted by a third party firm for determining the value of a companies' options or potential exit value.
- Income approach - This approach determines fair value using techniques to convert future cash flows or earnings to a single present amount. The measurement is based on the value indicated by current market expectations about those future amounts. The approach would be appropriate for companies in the later stage of the company's development where there is an established financial history of profitable operations.

When utilizing these approaches if the current calculated value is not materially different from the previously calculated enterprise value and there has been no significant change to the underlying portfolio company, then no valuation adjustment is required.

Massachusetts Technology Development Corporation
d/b/a MassVentures
Notes to Financial Statements
June 30, 2018 and 2017

B. Summary of Significant Accounting Policies (continued)

7. Investments (continued) –

Realized gains on investments are credited against the Corporation's Unrestricted General Support Fund Balance. Realized losses are charged against the Restricted for Investment Programs Fund Balance. Unrealized net gain (loss) on investments resulting from changes in the market value of investments at balance sheet date are credited (charged) to the Restricted for Investment Programs Fund Balance.

Repayments of principal and proceeds from the sale of equity investments (to the extent of the cost basis) remain in funds restricted for investment programs. Investment interest is credited to the Corporation's General Support Fund Balance when received.

8. Income taxes - The Corporation, as an instrumentality of the Commonwealth, is not subject to federal or state income taxes.
9. Postemployment benefits other than pensions - The Corporation accounts for postemployment health benefits in accordance with GASB Statement No. 45 ("GASB 45"), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Corporation has elected to calculate its actuarial accrued liability and funded status using the alternative simplified method.
10. Subsequent events - The Corporation has evaluated all subsequent events through October 15, 2018, the date the financial statements were available to be issued.

C. Investment Program

1. Source of funds - The Corporation's original investment funds were provided in 1979 by a \$2,000,000 grant (including \$28,000 in start-up costs) from the Economic Development Administration ("EDA"), U.S. Department of Commerce. Under this grant, the Corporation makes loans from a revolving loan fund to eligible borrowers, defined as Massachusetts-based businesses with operations involving a significant amount of technology, which are located in EDA Title IV redevelopment areas and which meet the requirements of the Corporation's enabling act.

During the year ended June 30, 1981, the Corporation was awarded a \$1,000,000 grant under the Corporations for Innovation Development ("CID") program of the U.S. Department of Commerce. The grant award was for the purpose of establishing a second revolving loan fund to assist in the creation and development of small, innovative high-technology companies in Massachusetts. In addition, the Commonwealth appropriated \$1,000,000 to the Corporation as matching funds for the federal grant. The Commonwealth appropriation is restricted to equity investment. The CID program was cancelled during the year ended June 30, 2003. Restricted cash for investment programs of \$407,839 was returned to the U.S. Department of Commerce representing their portion of the remaining grant.

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C. Investment Program (continued)

Each year from fiscal years 1982 to 1988, the Commonwealth appropriated additional amounts to supplement the Corporation's investment fund. There were no geographical limitations within Massachusetts for these funds. The Commonwealth appropriated additional amounts to the Corporation's investment fund of \$5,000,000 in fiscal year 2004, \$2,500,000 in fiscal year 2007 and \$1,000,000 in fiscal year 2015. The cumulative amount of all appropriations received from the initial funding in 1981 through June 30, 2018 totaled \$13,700,000.

Under the terms of the grants of investment funds from the federal government and the Commonwealth, principal repayments and costs recovered are returned to the Restricted for Investment Programs Fund to be reinvested in accordance with the criteria required by the grants' provisions and the Corporation's enabling legislation and policies. In addition, the Corporation has transferred \$48,700,379 cumulatively through fiscal year 2018 to the Restricted for Investment Programs Fund to be reinvested in accordance with the criteria required by the Corporation's enabling legislation and policies. The transferred funds were derived from earnings and gains realized on past investments by the Corporation.

The total funds since inception of the Corporation that have been made available for investments are as follows:

Economic Development Administration of the U.S. Department of Commerce, net of start up costs	\$ 2,972,000
Commonwealth of Massachusetts	13,700,000
Realized gains on sales of equity securities allocated to General Support Fund	\$ 77,409,082
Portion of gains used for General Support Activities	<u>(38,926,366)</u>
Transfers to the Restricted for Investment Programs Fund	\$ <u>38,482,716</u>
Total funds made available for investments	\$ 55,154,716
Realized losses on investments	(40,627,345)
Distributions to U.S. Department of Commerce	(407,840)
Unrealized net loss on investments	<u>(3,244,861)</u>
Restricted for Investment Programs Fund Balance	\$ <u>10,874,670</u>

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C. Investment Program (continued)

2. Massachusetts Technology Development Corporation Commonwealth Fund - Section 105 of Chapter 110, MGL Acts of 1993 was enacted to authorize the Board of Directors to establish the MTDC Commonwealth Fund. The investments made by MTDC through the Commonwealth Fund are included in the Restricted for Investment Programs Fund Balance. Pursuant to the guidelines of the Chapter, the investment criteria for funds managed under the Commonwealth Fund are less restrictive than those of the Corporation's traditional programs.

Also pursuant to this Chapter, the Corporation established the Commonwealth Fund Investment Program I ("Program I"). During fiscal year 1995, two financial institutions agreed to participate in the Program, committing \$1,000,000 each. Program I has since then been fully liquidated. During fiscal year 2001, two financial institutions agreed to participate in the Commonwealth Fund Investment Program II ("Program II"), one committing \$2,000,000 and the other \$1,000,000. Funds from co-investors are separately maintained and these funds are not included in MTDC's Restricted for Investment Programs Fund Balance.

Pursuant to an agreement between the Corporation and the Commonwealth of Massachusetts, a share of the net realized gains from the Corporation's investments in the Commonwealth Funds shall be distributed to the General Fund of the Commonwealth of Massachusetts. At June 30, 2018 and 2017, the Corporation had an accrued liability to the Commonwealth of Massachusetts in the amount \$1,644 relating to net realized gains from the previous years. The cumulative amount paid to the General Fund at June 30, 2018, under the agreement is \$853,916.

3. Investments - During the years ended June 30, 2018 and 2017, the Corporation made debt and equity investments in aggregate amounts of \$1,795,128 and \$983,828, respectively. The notes in the portfolio of investments have interest rates of 5% to 9% per year. The terms of certain notes include an equity participation feature such as rights to convert to stock at a predetermined price or warrants to purchase common stock. Repayment of principal is generally due on demand, in a balloon payment, or in monthly installments ranging from twelve to sixty months. Such principal payments, however, are generally subordinated to the payment of senior debt of the borrowers. The Corporation does not recognize interest income on the notes until it is collected or an event has occurred which ensures collectability. Interest on the notes that has been accrued and fully reserved against during the years ended June 30, 2018 and 2017, totaled \$20,883 and \$39,717, respectively.

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C. Investment Program (continued)

3. Investments (continued) - A summary of investment activity is as follows:

	Notes receivable	Equity investments	Total
Investments made 1980 through 2016	\$ 36,033,703	\$ 50,273,865	\$ 86,307,568
2017	338,867	644,961	983,828
2018	<u>263,728</u>	<u>1,531,400</u>	<u>1,795,128</u>
 Total Investments	 36,636,298	 52,450,226	 89,086,524
Conversion of loan principal to equity	(17,241,402)	17,241,402	-
Loan principal repayments and equity Investments cost recovered	(11,441,434)	(26,080,052)	(37,521,486)
Realized gains on equity investments' sales 1982 through 2018	-	77,409,081	77,409,081
Allocation of realized gains to general Support fund	-	(77,409,081)	(77,409,081)
Realized losses on investments 1983 through 2018	(7,405,105)	(33,222,240)	(40,627,345)
Unrealized net gain on investments	<u>110,537</u>	<u>(3,355,218)</u>	<u>(3,244,861)</u>
Investment balance, June 30, 2018	\$ <u>658,894</u>	\$ <u>7,034,118</u>	\$ <u>7,692,832</u>

As of June 30, 2018, the investment portfolio consisted of the following types of securities as a percentage of the General Support and Restricted for Investment Program Fund Balances ("Fund Balance"): common stock 0.94%, preferred stock 30.68%, and notes receivable and escrow amounts 4.92%.

At June 30, 2018, MTDC had the following investments, at market, which represents more than 5% of the Fund Balance:

Life Image, Inc.	7.35%
OwnerIQ	9.07%

As of June 30, 2018 and 2017, there were pending loans and equity investments approved by the Board of Directors totaling \$0 and \$300,000, respectively.

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C. Investment Program (continued)

4. START Program - In 2012, the Corporation entered into an agreement with The Massachusetts Growth Capital Association (“MGCA”) to administer the SBIR Targeted Technologies (“START”) Program. The START program is designed to assist in the commercialization of technologies that were previously awarded federal SBIR grants. Under the terms of the initial agreement MGCA will fund the program with \$6,300,000 (“Initial Funds”), with a portion of that amount to be used by MTDC for administrative costs. The Initial Funds were dispersed in three phases. In 2012, MTDC awarded \$1,000,000 in Phase I grant awards, in 2013, MTDC awarded \$1,000,000 of Phase I and \$1,000,000 of additional Phase II grant awards, and in 2014, MTDC awarded \$1,000,000 of Phase I, \$1,000,000 Phase II and \$1,000,000 Phase III grant awards. In each year between of 2014 and 2018, the agreement was amended to provide for additional Phase I, Phase II and Phase III grants awards as well as additional amounts to be used by MTDC for administrative costs as direct technical assistance to award winners. In 2017, MTDC awarded \$1,000,000 of Phase I, \$1,000,000 Phase II and \$1,000,000 Phase III grant awards. The Phase I, Phase II and Phase III awards in the amount of \$3,000,000 are shown as a liability at June 30, 2017. In 2018, MTDC awarded \$1,000,000 of Phase I, \$1,000,000 Phase II and \$1,000,000 Phase III grant awards. The 2018 Phase I, Phase II and Phase III awards were paid out prior to June 30, 2018.

In 2017, the Corporation entered into an agreement with the Massachusetts Clean Energy Technology Center (“MassCEC”) whereby MassCEC funded the program with \$400,000 to be used to award \$200,000 in Phase I grant awards and \$200,000 in Phase II grant awards. This agreement was extended for 2018. The 2017 Phase I and Phase II awards in the amount of \$400,000 are shown as a liability at June 30, 2017. The 2018 Phase I and Phase II awards in the amount of \$400,000 were paid out prior to June 30, 2018.

D. Cash, Cash Equivalents and Short-Term Investments

The Corporation maintains operating cash accounts and other short-term investment securities to fund operations and provide appropriate reserves for the Corporation’s investment programs. The Corporation’s short-term investment securities include certificates of deposit, money market accounts, banker’s acceptances, commercial paper, treasury bills, repurchase agreements and government agencies.

As of June 30, 2018, the carrying amount of all of the Corporation’s cash, cash equivalents and short-term investments, which includes the General Support and Restricted for Investment Programs cash balances, totaled \$15,289,853 all held in financial institutions. Of that total \$1,205,643 was insured or collateralized under various federal, state and private insurance programs, \$9,116,994 was uninsured and uncollateralized on deposit with the Massachusetts Municipal Depository Trust, and an additional \$5,672,859 was uninsured on deposit with various banks.

Included in the cash, cash equivalents and short term investments Restricted for Investment Programs are funds sequestered by the EDA under the Corporation’s revolving loan program of \$179,131. This cash has been sequestered under the EDA’s under utilization guidelines for federal debt funds.

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E. Office Equipment and Software

Office equipment and software consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Office equipment	\$ 48,172	\$ 37,872
Leasehold improvements	30,174	30,174
Software	<u>14,509</u>	<u>14,509</u>
Total	92,855	82,555
Less accumulated depreciation and amortization	(58,047)	(51,212)
Net office equipment and software	\$ <u>34,808</u>	\$ <u>31,343</u>

F. General Support Expenditures

The General Support expenditures for the years ended June 30, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Personnel costs	\$ 1,035,774	\$ 804,341
Occupancy costs	106,062	103,345
Professional expenses	31,896	44,898
Post retirement benefits - health	6,216	(15,964)
Office services and supplies	43,813	51,532
Business development and travel	13,770	18,754
Public relations, publications and advertising	19,990	31,736
Depreciation and amortization	9,535	8,792
Miscellaneous	22,401	21,827
START program administrative costs	99,933	110,726
Consultants	<u>160,900</u>	<u>144,401</u>
Total expenditures	\$ <u>1,550,290</u>	\$ <u>1,324,388</u>

For the year ended June 30, 2018 compensation paid to the officers of the Corporation were as follows:

President	\$ 280,941
Vice President	\$ 167,025
Vice President	\$ 162,202

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G. Postemployment Benefit Plan (Other Than Pension)

During fiscal year 1998 the Board of Directors voted to designate General Support funds to establish a Post Retirement Health and Dental Insurance Plan (“The Plan”). The Plan is designed to provide postretirement health care benefits to all employees who retire from the Corporation on or after attaining age 59 ½ and who have been employed continuously by the Corporation, or its predecessor organization, the Massachusetts Science and Technology Foundation, for a combined total of at least 20 years. The Corporation will pay a portion of the premiums for health and dental insurance plans of the retiree’s choice. The initial annual benefit payment upon adoption of the plan was \$2,500 annually, per eligible retiree. That amount is indexed for inflation each year in an amount equal to the change in the Consumer Price Index (“CPI”). The annual benefit payment for the years ended June 30, 2018 and 2017 was \$6,744 and \$5,551, respectively.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and changes to the CPI. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Corporation, if any, are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and assumptions: Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and plan members) and include the type of benefit provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The following simplifying assumptions were made:

Retirement age for active employees: Active members are assumed to retire at age 59 ½.

Marital status: marital status is not a factor in determining eligibility for, or the amount of, benefits.

Mortality: Life expectancies are based on mortality tables maintained by the National Center for Health Statistics. The 2006 United States Life Tables for males and the United States Life Tables for females were used. Life expectancies that included partial years were rounded to the nearest whole year. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age displayed in the mortality tables.

Turnover: Non-group-specific age-based turnover data from GASB Statement 45 were used as the basis for assigning active employees a probability of remaining employed until the assumed retirement and eligibility dates and for developing an expected future lifetime assumption for purposes of allocating to future periods the present value of total benefits to be paid.

Healthcare cost trend rate: Under the provisions of the Plan, increases in future benefit payments are limited to changes in the CPI. A rate of 2.2%, based on a five year average of the CPI, has been used.

Health insurance premiums: The 2018 benefit amount for retirees of \$3,297 was used as the basis for calculation of the present value of total benefits to be paid.

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G. Postemployment Benefit Plan (Other Than Pension) (continued)

Inflation rate: An inflation rate of 2.2% was used.

Discount rate: Based on the historical and expected returns of the Corporation's short-term investment portfolio, a discount rate of 4.18% was used.

Funding progress: As of June 30, 2018, the actuarial accrued liability (simplified entry age) was \$168,151, which is included in the Corporation's liabilities on the accompanying statements of net position. The Plan is being funded with amounts designated by the Corporation and related interest income. As of June 30, 2018 and 2017, the Board of Directors approved funding commitment is \$282,500, of which \$231,615 has been reserved through fiscal year 2018, resulting in an overfunded liability of \$63,464.

H. Internally Designated - General Support

The following table represents the components of the Internally Designated – General Support cash, cash equivalents and short-term investments balance at June 30:

	<u>2018</u>	<u>2017</u>
Post retirement health and dental insurance plan	\$ <u>231,615</u>	\$ <u>231,615</u>
General Support Internally Designated cash, cash equivalents and short-term investments	\$ <u>231,615</u>	\$ <u>231,615</u>

I. Capital Lease

In March 2018 the Corporation entered into a 48 month copier lease at an annual percentage rate of 4.94%. Property held under the capital lease, included with office equipment and software on the balance sheet at June 30, 2018, consisted of the following:

Office equipment	\$ 13,000
Less: accumulated depreciation	(<u>1,300</u>)
Net office equipment under capital lease	\$ <u>11,700</u>

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I. Capital Lease (continued)

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of June 30 are as follows:

2019	\$	3,588
2020		3,588
2021		3,588
2022		<u>2,093</u>
Total minimum lease payments		12,857
Less: imputed interest		<u>(1,093)</u>
Present value of minimum lease payments	\$	<u>11,764</u>

J. Commitments and Contingencies

Operating leases

In July of 2013 the Corporation entered into a new lease agreement for office space beginning in October of 2013 and extending through September 30, 2016. In June of 2016 the Corporation entered into an agreement to extend the original lease through September 30, 2019. The agreement provides for base rent plus operating expenses and tax escalation clauses. Rent expense for the years ended June 30, 2018 and 2017, was \$100,787 and \$98,136 respectively.

Future minimum lease payments under this non-cancelable operating lease for the years ending June 30:

2019	\$	104,366
2020		<u>26,332</u>
Total	\$	<u>130,698</u>

Other contingencies

From time to time, the Corporation is subject to legal proceedings and claims in the ordinary course of business. As of June 30, 2018 there were no liabilities incurred related to such a contingency.

K. Related Party Transactions

MassVentures is the Managing Member of the Commonwealth Fund III (“the Fund”) and manages their investments and provides certain administrative services as defined in their Operating Agreement. The Company is paid a fee equal to 1.00% of the Capital Commitments of all Members, payable quarterly in advance, until the last day of the Investment Period. Thereafter, the fee will be equal to 1.00% of the Capital Commitments of all Members less the proceeds received from the realization of portfolio investments that are distributed to Members. Payments for partial periods shall be prorated accordingly.

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K. Related Party Transactions (continued)

The Managing Member has the right to waive, reduce or adjust the management fee of any or all members. During the year ended June 30, 2018 the Company was paid \$50,000 by the Fund. At June 30, 2018, the Company had no recorded amounts receivable from the Fund.

L. Employee Retirement Plan

The Corporation provides retirement benefits for substantially all employees through a simplified employee pension plan (“SEP”). The Corporation makes contributions to individual retirement accounts (“IRAs”) of employees in amounts equal to 10% of an employee’s gross annual salary, not to exceed the maximum amount allowable by federal law. Quarterly contributions are distributed to the eligible employees’ IRA at Fidelity Investments. The Corporation has no fiduciary responsibility for these investments. Contribution expenses for fiscal years 2018 and 2017, were \$171,755 and \$59,795, respectively.