

**MASSACHUSETTS DEVELOPMENT
FINANCE AGENCY**

REQUEST FOR PROPOSALS

FOR

AUDIT AND TAX SERVICES

FEBRUARY 2024

1. BACKGROUND

The Massachusetts Development Finance Agency (“MassDevelopment” or “Agency”) is a body politic and corporate created by the Commonwealth of Massachusetts to help foster economic development across the Commonwealth. The Agency is governed by an 11-member Board of Directors. MassDevelopment prides itself on a team-oriented, solutions-based approach to economic development. The Agency provides its clients with entrepreneurial solutions to complex real estate projects and financing options that create economic opportunities in Massachusetts. Our staff is located in offices throughout the Commonwealth. The Accounting Department is located in the Devens, MA office.

2. PROJECT DESCRIPTION

MassDevelopment is seeking the services of a public accounting firm to conduct audits of the Agency and its related entities’ financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards* issued by the Comptroller General of the United States (GAS) and to prepare tax returns for the Agency’s related entities. In addition, we are seeking services to conduct an audit in accordance with the requirements of the Single Audit Act and Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

MassDevelopment will enter into a contract/contracts with a respondent based on qualifications and best value.

MassDevelopment reserves the right to waive any informalities or to reject any or all proposals. Award of a contract for the work contemplated by this Request for Proposals (RFP) may be subject to the approval of MassDevelopment’s Board of Directors.

3. SELECTION SCHEDULE/TIME AND PLACE OF SUBMISSION OF PROPOSALS

The selection schedule is as follows:

RFP Available:	February 26, 2024
Deadline for Questions:	March 6, 2024 by 5:00 pm
Response to Questions Issued:	March 8, 2024 by 5:00 pm
Proposal Submission Deadline:	March 22, 2024 by 5:00 pm
Interviews (If needed):	April 1-5, 2024

MassDevelopment reserves the right to alter the timeline as it deems necessary.

All inquiries concerning this RFP must be addressed to the following person:

Megan Andrade
Controller/SVP Finance
MassDevelopment Finance Agency
33 Andrews Parkway
Devens, MA 01434
mandrade@massdevelopment.com

This RFP has been distributed electronically using MassDevelopment's website. It is the responsibility of respondents to check the website for any addenda or modifications to this RFP.

All questions should be submitted via email to mandrade@massdevelopment.com on or before March 6, 2024. Prospective respondents should note that all clarifications and exceptions including those relating to the terms and conditions of the contract must be submitted prior to submission of a proposal. Answers to all questions of a substantive nature will be given to all prospective respondents in the form of a formal addendum which will become part of the ensuing contract.

Respondents to this RFP must submit two hard copies and one electronic copy of their proposals. Responses must be received no later than March 22, 2024 by 5:00 pm. Hard copies of responses should be clearly marked "RFP – Audit & Tax Services" and mailed (by registered or certified mail, return receipt requested, postage prepaid) or hand delivered to the contact person listed above. Electronic copies of responses, preferably in a searchable PDF format, must be sent to the e-mail address listed above with the subject line "RFP – Audit & Tax Services."¹

Any proposal received after the time specified will be considered a late proposal. A late proposal shall not be considered for award. Delays in mail deliveries or any other means of transmittal, including couriers, shall not excuse late proposal submissions.

4. DIVERSE BUSINESS ENTERPRISES

MassDevelopment strongly encourages the use of Minority Owned Business Enterprises ("MBEs"), Women Owned Business Enterprises ("WBEs"), Veteran-Owned Business Enterprises ("VBEs"), and Service Disabled Veteran Business Enterprises ("SDVBEs", and collectively with the MBEs, WBEs, and VBEs hereinafter referred to as "Diverse Business Enterprise(s)"), as consultants, contractors, subconsultants, subcontractors, and suppliers in the procurement of its direct design, engineering, construction and all professional services.

Accordingly, MassDevelopment has developed a Diverse Business Participation Program (the "DBE Program") which establishes criteria to encourage and measure participation by Diverse Business Enterprises in the provision of such services. The DBE Program

¹ Please note that MassDevelopment cannot receive e-mail attachments larger than 25 megabytes (an attachment larger than 25 megabytes will cause your email to be rejected entirely). If your proposal exceeds that limit, please upload your proposal to your own storage service and provide MassDevelopment with a link to the file(s).

addresses MassDevelopment's commitment and the commitment of respondents to this RFP/Q, to seek opportunities for Diverse Business Enterprise participation in this contract. Please see Attachment 1 for MassDevelopment's DBE Program guidelines and forms which must be submitted with respondent's proposal.

5. SCOPE OF SERVICES

The audits of financial statements include the following entities (Audit Committee meeting typically held on the second Thursday of November and required due date is issuance of financial statements by November 30th):

- MassDevelopment Consolidated Financial Statements with MD&A and Supplemental Information
- MassDevelopment Devens Electric Utility Division Financial Statements with MD&A

Timeline for audit and issuance of financial statements:

- Auditor planning meeting with Audit Committee, typically, June or July;
- Interim audit - based on 9 months fiscal year activity ending March 31st done in June;
- Year end audit – usually starts the second week of September and continues through October/early November;
- Audit Committee presentation of draft financial statements and audit results – second Thursday of November;
- Issuance of financial statements – by end of November

An audit in accordance with the requirements of the Single Audit Act and Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) (required due date based on issuance of consolidated financial statements):

- MassDevelopment Report of Federal Awards (issued by end of December)

The tax return filings include the following entities (required due dates based on related filing deadlines; extensions are allowed):

- Hospital Hill Development LLC Federal Form 1065 and MA State Form 3
- MassCare Capital, Inc. Federal Form 990-PF and MA State Form PC
- Civic Investments, Inc. Federal Form 990-EZ and MA State Form PC
- MassDevelopment/HEFA Charitable Trust Federal Form 990
- Taunton Development/MassDevelopment Corporation Federal Form 990 and MA State Form PC
- Cape Ann Fisheries Development Corp. Federal Form 990

MassDevelopment seeks to identify firms meeting its selection criteria and capable of delivering the experience, dedication and perspective necessary to address our broader business issues and challenges. We believe that our audit must deliver the optimum levels of assurance to all key stakeholders.

6. ELEMENTS OF PROPOSAL

Instructions:

All proposals shall provide information relating to the elements listed below in sufficient detail to allow MassDevelopment to conduct an informed and fair selection process. A submission must, at a minimum, include the following elements:

- Qualifications of the firm.
 - Experience of the service team. References for lead partners.
 - Details of the firm’s proposed audit approach. Specific commentary on key strategic and operational challenges.
 - Transition plan for the audit.
 - Quality assurance and independence.
 - Detail of fees, expenses and hourly rates (including number of hours by staff classification).
 - Estimated annual fees for the next three year fiscal years for the audits and tax returns.
 - Description of the firm’s relevant experience in performing the described services, including:
 - professional qualifications to perform services,
 - specialized experience and technical competence,
 - past experience, and
 - work with public sector entities and private-sector development organizations, on projects in Massachusetts.
 - A copy of your firm’s standard engagement letter.
 - References
-
- Diverse Business Enterprise (DBE) Participation Schedule and Narrative (See Attachment 1).
 - Insurance – please provide a certificate of insurance setting forth the respondent’s current insurance coverage including limits, deductibles, and a statement declaring the respondent’s agreement, if awarded this contract, to purchase and maintain the liability insurance set forth below as evidenced by a certificate of insurance from an insurance company having an A.M. Best rating of “A-, VII” and licensed to transact business in the Commonwealth of Massachusetts.
 - a. Commercial General Liability Requirements, including personal injury and if applicable, product liability/completed operations coverage in the minimum amount of \$1 million personal injury, \$1 million per occurrence, and \$2 million general/product/completed operations aggregate. Policy must be written on a per project basis;

- b. Auto liability coverage for owned, hired and non-owned vehicles in the minimum amount of \$1 million per occurrence combined single limit;
- c. Workers' Compensation for all its employees, as required by statute, with employer's liability of \$500,000 or more include \$500,000 accident and \$500,000 disease;
- d. Professional liability (errors & omissions) with per claim limits of not less than \$1 million;
- e. Umbrella Liability-\$5 million per occurrence and \$5 million aggregate written on a follow form basis.

Massachusetts Development Finance Agency, its successors and/or assigns, as their interests may appear, shall be named additional insured under the General Liability, Auto Liability, and Excess Umbrella Liability policies.

7. EVALUATION CRITERIA

MassDevelopment's selection committee will evaluate and compare each submitted proposal using the following evaluation criteria. The criteria are not listed in any order of importance:

- Relevant experience of firm and of key personnel, including:
 - professional qualifications to perform services;
 - specialized experience and technical competence; and
 - prior experience with public sector entities.
- Overall quality of submission and proposed approach;
- Quality of interviews and management interactions;
- Proposed fees, expenses and hourly rates; and
- Capacity to perform services within a required timeframe.

Certain selected respondents may be asked to make an oral presentation in support of their written submission. Time and location will be scheduled for each presentation, if required.

Determination of the successful respondent will be made using a best value determination with the goal of making an award to the respondent who is responsible, possesses the management, financial and technical capabilities necessary to fulfill the requirements of the contract, whose proposal conforms to the RFP's requirements stated herein, and who is judged by an integrated assessment of the general considerations and specific criteria defined in the evaluation criteria set forth herein to be most advantageous to MassDevelopment, with the proposed price and other factors considered. ***The Diverse Business Participation Schedule and Narrative is an important component of the evaluation of proposals.***

MassDevelopment has determined that it is in the public interest, for purposes of this procurement, that evaluation factors relating to the respondent's proposal are more important than the proposed price. Therefore, MassDevelopment may select a respondent who offers a price higher than the lowest price among the responsible, eligible and qualified respondents if it is determined that the additional technical merit offered is worth the

additional price in relation to the other proposals received. For evaluation purposes, if the proposals received are determined to be technically comparable, then the proposed price becomes more important.

8. SELECTION PROCESS

Only responses containing the Elements of Proposal (Section 6) and meeting the minimum requirements set forth in the Evaluation Criteria (Section 7) may be considered for further evaluation.

There will be no public opening of proposals submitted under this RFP. An internal selection committee will be convened to review the submitted proposals, and this committee may or may not contact respondents for further clarification or interviews and may also contact references. The committee reserves the right to identify a “short list” of qualified respondents for follow-up interviews or to make recommendations based on the information contained in the proposals. Instructions for interviews, if required, will be provided to the short-listed firms.

MassDevelopment reserves the right to waive any of the formal requirements of this RFP, to request additional information from any respondent, to award without negotiations or discussions, to negotiate with any respondent, to reject any or all proposals or parts of proposals, to solicit new proposals, and to award contracts to one or more respondents or to reject any or all respondents as it deems in its best interest.

The respondent selected will begin to perform services, as needed by MassDevelopment subject to execution of a contract substantially in the form attached as Attachment 1 hereto. MassDevelopment reserves the right to negotiate the final terms of the contract and compensation. Should MassDevelopment be unable to negotiate a satisfactory fee with the selected finalists, then the next highest ranked finalists will be selected and the negotiation process repeated.

9. GENERAL PROVISIONS

- a. MassDevelopment reserves the right to reject any or all responses or parts of responses, to solicit new responses, and to award contracts as it deems to be in its best interest.
- b. By submitting a proposal to MassDevelopment, the respondent is certifying that its offer is in all respects bona fide, fair, and made without collusion or fraud with any person. As used in this section, “person” shall mean any natural person, joint venture, partnership, corporation or other business or legal entity.
- c. Respondents are encouraged to utilize qualified Diverse Business Enterprises (as defined above). MassDevelopment hereby notifies all respondents that Diverse Business Enterprises will be afforded full opportunity to submit offers and/or proposals in response to this RFP and will not be subjected to discrimination on the basis of race, color, sex or national origin in consideration for an award.

- d. Potential respondents are hereby notified that issuance of this RFP and receipt of proposals does not assure that a respondent will be selected.
- e. MassDevelopment is not liable for any costs incurred by a respondent in the preparation and production of a proposal or for any work performed prior to contract execution.
- f. MassDevelopment reserves the right to waive any informalities, minor deviations, insignificant mistakes, and matters of form rather than substance and to seek clarification of the proposals, which can be waived or corrected without prejudice to other respondents, potential respondents, or MassDevelopment. No officer or agent of MassDevelopment is authorized to waive this reservation.
- g. A proposal may be modified or withdrawn by a respondent prior to ten (10) business days after the proposal submission deadline by delivering a written notice to the location designated as the place where proposals are to be received.
- h. Any proposal submitted in response to this RFP that is not modified or withdrawn as specified in Section 9 (h) above, shall be considered a firm offer and shall remain effective unconditionally for ninety (90) days.
- i. No respondent shall hold any press conference, issue news releases, or make announcements concerning its selection or non-selection for a contract prior to MassDevelopment's public release of this information; thereafter any such press conference, release, or announcement shall be made only after obtaining the written approval of MassDevelopment.
- j. MassDevelopment provides respondents with an opportunity to administratively resolve disputes, complaints, or inquiries related to MassDevelopment proposal solicitations or contract awards. MassDevelopment encourages respondents to seek resolution of disputes through consultation with MassDevelopment staff. All such matters will be accorded impartial and timely consideration. If consultation with MassDevelopment staff does not lead to a resolution of the dispute, respondents must file a written dispute with the MassDevelopment Office of General Counsel.
- k. During the evaluation process, the content of each proposal will be held in confidence and details of any proposal will not be revealed (except as required under law).
- l. Unless otherwise specified in the response to the RFP, the quoted price includes all overhead, insurance, taxes, fees, and licenses applicable to the delivery or services set forth in the proposal.
- m. Respondents are further advised that upon signing a contract, the selected respondent must certify that it has complied with any and all laws of the Commonwealth relating to the payment of taxes, reporting of employees and contractors, and withholding and remitting of child support as required by M.G.L.

c.62C, §49A, and has either (i) filed all tax returns and paid all taxes required by law; (ii) has filed a pending application for abatement of such taxes; (iii) has a pending petition before the appellate tax board contesting such taxes; or (iv) does not derive taxable income from Massachusetts Sources such that it is subject to taxation by the Commonwealth of Massachusetts; and must certify that it is a “Qualified Employer” or an “Exempt Employer” as defined under Chapter 521 of the Massachusetts Acts of 1990, as amended by Chapter 329 of the Massachusetts Acts of 1991, and 102 CMR 12.00 *et. seq.* as provided in the contract. A respondent’s failure to certify compliance with said laws would be cause for MassDevelopment not to enter into a contract. MassDevelopment further reserves the right to investigate, at any time prior to MassDevelopment’s execution of a contract or during the term of a contract, any information indicating that there has been a failure to comply with said laws. If MassDevelopment determines that any selected respondent has not complied with said laws, it shall decline to enter into a contract, may terminate any contract entered into, and further may decline to extend the contract.

- n. This procurement is subject to M.G.L. c. 7 §§ 22C - 22F which provides that a state agency, state authority, the house of representatives or the senate may not procure goods or services from any person employing ten or more employees in an office or other facility located in Northern Ireland, who fails to certify that:
 - i. he/she does not discriminate in employment, compensation, or terms, conditions and privileges of employment on account of religious or political belief; and
 - ii. he/she promotes religious tolerance within the work place, and the eradication of any manifestations of religious and other illegal discrimination; and
 - iii. he/she is not engaged in the manufacture, distribution or sale of firearms, munitions, including rubber or plastic bullets, tear gas, armored vehicles or military aircraft for use or deployment in any activity in Northern Ireland.

Mass. Gen. Laws c. 7, §§22C – 22F shall not apply if (i) the procurement is essential, as determined by MassDevelopment, and compliance would eliminate the only proposal or offer or would result in inadequate competition; or (ii) there is not comparable proposal or offer (i.e. within 10%) by a certifying firm; or (iii) the firm does not employ ten or more employees in an office or other facility located in Northern Ireland.

- o. MassDevelopment is subject to the requirements concerning the disclosure of public records under the Massachusetts Public Records law, M.G.L. c. 66, and thus documents and other materials made or received by MassDevelopment are subject to public disclosure.
- p. All respondents must be registered to do business and be in good standing with the Massachusetts Secretary of State’s Office in order to transact business in Massachusetts. MassDevelopment may request evidence of good standing prior to entering into any contract.

- q. A respondent will not be selected if it appears on any list of debarred or suspended contractors maintained by the Commonwealth or the Federal government.
- r. See the attached contract form for other certifications and other provisions with which the selected respondents must comply. MassDevelopment reserves the right to modify this contract and certifications to the extent it deems necessary.

Attachments

Attachment 1 – MassDevelopment’s Diverse Business Participation Program Guidelines

Attachment 2 – Copies of the DRAFT FY2023 audited consolidated financial statements and DRAFT report on federal awards; FY2023 Devens Electric Utility Division audited financial statements; copies of the FY2022 audited consolidated financial statements and report on federal awards

[Attachment 1 – MassDevelopment’s Diverse Business Participation Program Guidelines]

MassDevelopment strongly encourages the use of Diverse Business Enterprises (as defined in Section 4 of the RFP/Q) as consultants, contractors, sub-consultants, subcontractors, and suppliers in the procurement of its direct design, engineering, construction and all professional services. Accordingly, MassDevelopment has developed a Diverse Business Participation Program (the “DBE Program”) that establishes criteria to encourage and measure participation by Diverse Business Enterprises in the provision of such services.

The DBE Program addresses MassDevelopment’s commitment, and the commitment of respondents to this RFP/Q, to seek opportunities for Diverse Business Enterprise participation. The DBE Program requires MassDevelopment to reach out to Diverse Business Enterprises in its contracting opportunities and to track the percentage of Diverse Business Enterprises which participate in Agency contracting at the direct contracting level. The participation levels of Diverse Business Enterprises in MassDevelopment’s direct contracting will be reported to MassDevelopment’s Board of Directors annually.

In addition, the DBE Program requires examination of respondent’s anticipated utilization of Diverse Business Enterprises at the subcontractor/subconsultant level, including the percentage of the total proposed price to be supplied by Diverse Business Enterprises and the identity of the work to be performed by Diverse Business Enterprises. The DBE Program also considers the strategies and good faith efforts each respondent will use to obtain qualified Diverse Business Enterprise subcontractors/subconsultants and suppliers, how the respondent will interface with MassDevelopment for outreach, pre-solicitation review of subcontracting/subconsulting, and compliance monitoring and reporting. It will also consider how the respondent will address resolving disputes with Diverse Business Enterprise subcontractors/subconsultants, including proposed termination and alternative plans for the substitution and replacement of Diverse Business Enterprise firms that have been terminated. Finally, it will consider what technical assistance initiatives and supportive service strategies the respondent will employ to promote full participation by Diverse Business Enterprises and to support the efforts by such firms to build capacity.

Respondent Submission Requirements

As part of respondent’s proposal submission, the Participation Schedule (attached hereto as Exhibit A) **must be submitted**. The proposal submission **must include a narrative** with a summary of the below information.

1. Explain how the respondent intends to ensure overall compliance with MassDevelopment’s policy of promoting equity and opportunity for Diverse Business Enterprises, including the strategies the respondent used to obtain certified MBE, WBE, VBE or SDVBE subcontractors and suppliers to perform work or provide supplies for the project.
2. Explain the good faith efforts the respondent has already made to obtain Diverse Business Enterprise participation, including:

- The strategies the respondent has used to obtain certified MBE, WBE, VBE or SDVBE subcontractors and suppliers,
 - Documented communication with MassDevelopment about Diverse Business Enterprise outreach,
 - How the respondent used information concerning Diverse Business Enterprise subcontracting opportunities provided by MassDevelopment during the pre-proposal conference, if any, and/or through other means,
 - Solicitations placed by the respondent in general circulation media, trade association publications, minority-focused media and other reasonable and available means to obtain Diverse Business Enterprise involvement,
 - Written notifications sent by the respondent to Diverse Business Enterprises encouraging participation in the proposed contract,
 - Efforts the respondent made to identify specific portions of the work that might be performed by Diverse Business Enterprises,
 - A list of names, addresses, and telephone numbers of Diverse Business Enterprises that were contacted,
 - A description of the information provided to targeted Diverse Business Enterprises regarding the particular project, and
 - Efforts made by the respondent to assist Diverse Business Enterprises in obtaining bonding or insurance required by the Bidder/proposer or by MassDevelopment.
3. Submit a narrative explaining how during performance of the contract the respondent will maintain continued efforts to preserve and enhance Diverse Business Enterprise participation, including the respondent's:
- Description of how the respondent will interface with the MassDevelopment project manager and contract manager for outreach and assistance generally and with respect to the specific issues below,
 - Description as to how the respondent will abide by the monitoring and reporting requirements of the contract,
 - Description of the dispute resolution procedures the respondent will institute under its subcontracts with Diverse Business Enterprises to encourage amicable resolution of disputes and continued performance by the Diverse Business Enterprises, and
 - Description of the procedures and guidelines for the termination of Diverse Business Enterprises as well as for the identification and selection of substitutes.
4. Respondent will provide an explanation of its efforts to diversify its workforce, management, and ownership in order to make its business a more equitable and inclusive workplace.
5. At the time the contract is executed, respondent shall submit its final DBE Participate Schedule to MassDevelopment. Respondent shall cooperate with MassDevelopment and exercise good faith efforts to seek opportunities for Diverse Business Enterprise participation.

Exhibit A
MassDevelopment's Diverse Business Enterprise (DBE) Participation Schedule
[THIS SCHEDULE AND A NARRATIVE MUST BE RETURNED WITH
RESPONDENT'S PROPOSAL]

PART 1: CONSULTANT INFORMATION

Business Name and Address: _____
 Contact Name and Phone Number: _____
 Email Address: _____

Is the Consultant Supplier Diversity Office certified as a DBE:

- Yes No, not a certified DBE

Consultant is a 1) Minority Business Enterprise; 2) Women Business Enterprise; 3) Veteran Business Enterprise; or 4) Service-Disabled Veteran-Owned Business Enterprise (**check the appropriate category(ies) below**):

- MBE WBE VBE SDVBE

PART 2: NARRATIVE

Consultant **must attach** to this schedule a narrative containing: (1) communications regarding DBE outreach, (2) identification of the work that may be completed by any DBEs, (3) a dispute resolution process with DBEs, (4) procedures for the replacement of DBEs if termination is required, and (5) an explanation of efforts to diversify your own staff and leadership and make your business a more equitable and inclusive workplace.

PART 3: CONSULTANT'S DBE SUBCONTRACTORS/SUBCONSULTANTS

Have you sought out DBE Participation at the subcontract/subconsultant level: Yes No N/A

If yes, which methods did you use:

- Solicitation placed in trade publications Written notification
 Assist DBEs in obtaining required bonding or insurance COMMBUYS
 Other: _____

If yes, complete the below list:

<u>Name and Address of Planned Diverse Business Enterprise Subcontractors/ Subconsultants</u>	<u>Circle Appropriate Certification</u>	<u>Dollar Amount of Participation on a Massachusetts fiscal year (July 1 – June 30) basis</u>
	MBE / WBE / VBE / SDVBE	
	MBE / WBE / VBE / SDVBE	
	MBE / WBE / VBE / SDVBE	
	MBE / WBE / VBE / SDVBE	
	MBE / WBE / VBE / SDVBE	

PART 4: CERTIFICATION (REQUIRED)

Under the pains and penalties of perjury, I certify that the information provided on this form and all attachments is accurate.

Signature: _____

Written Name: _____

**Massachusetts Development
Finance Agency**
(A Component Unit of the Commonwealth of
Massachusetts)

**Financial Statements issued in accordance
with *Government Auditing Standards***

Fiscal Year ended June 30, 2023

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Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)

June 30, 2023

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Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
June 30, 2023
(unaudited)

As management of the Massachusetts Development Finance Agency (the Agency), we offer the readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2023. This discussion and analysis should be read in conjunction with the accompanying financial statements.

The Agency was created on September 30, 1998 pursuant to Chapter 23G of Massachusetts General Laws (MGL) (Chapter 289 of the Acts of 1998). The Agency is a body corporate and politic and a public instrumentality and was created from the statutory merger of, and is the legal successor in all respects to, two previous existing instrumentalities, the Massachusetts Government Land Bank (created in 1975 under Chapter 212 of the Acts of 1975) and the Massachusetts Industrial Finance Agency (created in 1978 pursuant to Chapter 23A of the MGL) and is the legal successor to the Massachusetts Health and Educational Facilities Authority (created pursuant to Chapter 614 of the Acts of 1968). Other powers of the Agency are also set forth in MGL Chapter 40D (with respect to the issuance of tax-exempt bonds) and Chapter 498 of the Acts of 1993, as amended (with respect to the redevelopment of the former Fort Devens (Devens), a former federal military base).

The purpose of the Agency is to stimulate economic growth, increase employment, eradicate blight, promote prosperity and help build communities throughout the Commonwealth of Massachusetts (Commonwealth). It does this through its powers to:

- Issue tax-exempt bonds for the benefit of certain industrial and commercial entities, educational, health care and housing facilities and public bodies;
- Make loans and provide credit to eligible borrowers in accordance with its public purpose;
- Aid public and private enterprises in the redevelopment of surplus federal and state property and other blighted, open, underdeveloped property and;
- Administer specific statutory programs directed at certain economic development needs in the Commonwealth, such as Emerging Technology Program, Cultural Facilities Program, Military Bond Bill Capital Projects Program, Site Readiness Program, redevelopment of the Belchertown State School, Transformative Development Initiative Program, Brownfield Redevelopment Program, Credit Enhancement of Charter School Facilities Program, Transportation Infrastructure Enhancement Trust Program, Innovation Voucher Program, Community Innovation Infrastructure Program, Underutilized Properties Program, State Small Business Credit Initiative Programs and the Massachusetts Export Finance Program.

The Agency is governed by an 11-member Board of Directors, nine of whom are appointed directly by the Governor and two of whom are public officials, or their designees, serving ex officio. The Agency is considered a component unit of the Commonwealth for financial statement reporting purposes.

Using the Financial Statements

The Agency's annual report includes three basic financial statements: the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows. The basic financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The Agency's financial statements are reported as a special purpose business type entity.

The statement of net position reports assets, liabilities and deferred inflows of resources and the difference between them as net position. Net position represents the residual interest in the Agency's assets, plus deferred outflows of resources after liabilities, less deferred inflows of resources and consists of three sections: net investment in capital assets; restricted and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. The Agency's restricted net position is expendable. All other net position is unrestricted.

Revenues and expenses are categorized as either operating or non-operating based upon management's definition of the Agency's principal ongoing operations.

In 2023, the Agency adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB No. 96) and restated its 2022 financial statements to reflect the requirements of GASB No. 96 as of July 1, 2022. See Notes 2 and 11 for additional information. The adoption of GASB No. 96 increased right to use subscription assets, net, interest payable, subscription liability and net position by \$275,624, \$1,791, \$252,479 and \$21,354, respectively, as of June 30, 2022.

In 2023, the Agency also restated its 2022 financial statements to include the MassDevelopment/HEFA Trust as a Fiduciary activity in accordance with GASB Statement No. 84, *Fiduciary Activities* (GASB No. 84). The net position at June 30, 2022 was decreased by \$8,869,695. The Agency also restated the beginning net position of the Investment Trust Fund as of December 31, 2021 in the Statement of Fiduciary Net Position with a decrease of \$78,777,365 to remove the Agency holdings in the Investment Trust Fund as of December 31, 2021.

Statements of Net Position**As Restated *****June 30, 2023****June 30, 2022****Assets**

Current assets	\$ 315,606,900	\$ 265,294,696
Noncurrent assets	143,103,406	175,852,009
Right to use leased assets (net of accumulated amortization)	2,638,340	2,993,889
Right to use subscription assets (net of accumulated amortization)	544,268	275,624
Assets held for sale	5,229,591	15,766,037
Capital assets (net of accumulated depreciation)	90,210,112	78,802,889
Total assets	<u>557,332,617</u>	<u>538,985,144</u>

Liabilities

Current liabilities	69,347,359	51,460,055
Noncurrent liabilities	55,464,678	55,560,170
Total liabilities	<u>124,812,037</u>	<u>107,020,225</u>

Deferred Inflows of Resources

	4,388,369	10,244,060
Total liabilities and deferred inflows of resources	<u>129,200,406</u>	<u>117,264,285</u>

Net Position

Net investment in capital assets	65,851,071	78,709,236
Restricted	211,101,968	183,615,589
Unrestricted	151,179,172	159,396,034
Total net position	<u>428,132,211</u>	<u>421,720,859</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 557,332,617</u>	<u>\$ 538,985,144</u>

* Balances and net position for 2022 were restated for the adoption of GASB No. 96 and GASB No. 84.

Assets

The Agency's current assets mainly consist of cash and cash equivalents, short-term investments, current portion of loans receivable, current portion of lease receivable, accounts receivable and other assets, due from the Commonwealth of Massachusetts and assets held for sale. The Agency's noncurrent assets mainly consist of long-term cash and cash equivalents and investments, other investments, net loans receivable, lease receivable, assets held for sale, leased assets, net, subscription assets, net and capital assets, net.

Current assets increased by \$50.3 million from 2022 to 2023 mainly due to a combination of increases in cash and cash equivalents – restricted for use due to increased funding for restricted programs and short-term investments which shifted from longer term investments.

Noncurrent assets decreased by \$32.7 million from 2022 to 2023 mainly due to decreases in cash and cash equivalents - restricted for capital use as funds are being used for capital infrastructure, investments and lease receivable, offset by increases in net loans receivable.

The Agency's operating cash accounts are held with TD Bank, N.A. The majority of the Devens Electric System Utility bond proceeds are held with the trustee at U.S. Bank. The Agency's investments are held with PFM Asset Management LLC (PFM) as the Agency's investment advisor. The Agency's cash, cash equivalents and investments are recorded at fair value and consist of guaranteed investment contracts, certificates of deposit, demand deposits, mutual funds, Short-Term Asset Reserve Fund (STAR Fund), and corporate and government obligations.

Loans receivable consist of loans issued by the Agency (net of the allowance for loan loss) primarily for the following economic development program types:

- Business loans
- Construction loans
- Permanent real estate loans
- Equipment loans
- Development loans
- Emerging technology loans
- Brownfields redevelopment loans
- Export financing

As of June 30, 2023 and 2022, there were \$118.5 million and \$102.5 million, respectively, of net loans receivable.

Net loans receivable increased \$16.0 million from 2022 to 2023 due to more loan disbursements as compared to loan repayments during the fiscal year. The total loan disbursements were approximately \$31.8 million as compared to \$12.0 million of loan repayments, mainly within the General Operations Program and the Emerging Technology Program.

Lease receivable consists of long-term leases in which the Agency is the lessor of buildings or land in Devens, Springfield and Greenfield, MA. In accordance with Leases (GASB No. 87), the lease receivable is measured at the present value of lease payments expected to be received during the lease terms. As of June 30, 2023 and 2022, there were \$4.6 million and \$10.6 million, respectively, of lease receivable. The decrease from 2022 to 2023 was mainly due to the termination of leases related to the Springfield, MA building as that building was sold during the fiscal year. See Note 11 to the financial statements for more information on lease receivable.

Other investments include the Agency's equity investments in the Commonwealth Fund III LLC, Commonwealth Fund IV and eight New Markets Tax Credit (NMTC) entities as of June 30, 2023. The increase of approximately \$1.1 million from 2022 to 2023 was mainly due to the new investment in the Commonwealth Fund IV during the fiscal year.

Accounts receivable and other assets mainly include outstanding amounts at year-end related to utility usage at Devens, grants, NMTC management fees and reimbursement of expenses, Devens operating fees, prepaid insurance and other miscellaneous receivables. The increase from 2022 to 2023 was mainly related to outstanding payments for Devens utilities, offset by decreases in outstanding real estate taxes.

Due from the Commonwealth represents amounts owed to the Agency from the Commonwealth for grant reimbursements or capital activity at year-end. The outstanding reimbursements at year-end are mainly related to the New Bedford State Pier and the Cultural Facilities Program.

Current assets held for sale of \$3.4 million and \$6.4 million as of June 30, 2023 and 2022, respectively, relate to property that is actively being marketed for sale by the Agency that is expected to be sold within the following fiscal year. As of June 30, 2023 this mainly includes property in Greenfield and New Bedford, MA. The decrease from 2022 to 2023 was due to the sale of the Springfield and Worcester, MA buildings during the fiscal year.

Noncurrent assets held for sale of \$1.9 million and \$9.4 million as of June 30, 2023 and 2022, respectively, relate mainly to the Taunton Development Corporation (TDC) capital assets and property that is actively being marketed for sale by the Agency that is expected to be sold greater than one year from the fiscal year-end. In January 2012, the Agency, in partnership with TDC, purchased from the Commonwealth the former Dever State School core campus in Taunton, Massachusetts. The property consisted of approximately 220 acres with approximately 40 dilapidated buildings and underground tunnels. A new nonprofit corporation, TDC, was formed to take title and redevelop the property. Redevelopment of the property includes expansion of the existing 150 acres of the Myles Standish Industrial Park and development of a life science park including a training/education center. The decrease from 2022 to 2023 was due to the sale of 21.2 acres at the property during the fiscal year.

Right to use leased assets, net of amortization in the amounts of \$2.6 million and \$3.0 million as of June 30, 2023 and 2022, respectively, relate to office space and equipment in which the Agency has entered into long term leases. In accordance with GASB No. 87, the leased asset value is comprised of the lease liability, less any lease incentives received from the lessor, plus initial direct costs related to the leased asset. The decrease of \$0.4 million from 2022 to 2023 is mainly due to the combination of new leases entered into during the fiscal year for new office space, offset by a lease ending for water filtration system equipment and amortization expense during the fiscal year. See Note 10 to the financial statements for more information on leased assets.

Right to use subscription assets, net of amortization in the amounts of \$0.5 million and \$0.3 million as of June 30, 2023 and 2022, respectively, relate to subscription-based information technology arrangements in which the Agency is using a third party software in areas such as payroll processing and financial reporting. In accordance with GASB No. 96, the subscription asset value is comprised of the initial subscription liability amount, payments made before commencement of subscription term and capitalizable implementation costs, less any incentives received from the vendor. The increase of \$0.2 million from 2022 to 2023 is mainly related to new subscription assets entered into during the fiscal year offset by amortization expense during the fiscal year. See Note 11 to the financial statements for more information on subscription assets.

Capital assets mainly relate to land, infrastructure and improvements and equipment assets for Agency operations in Devens and Boston, MA. The increase of \$11.4 million from 2022 to 2023 was mainly due to the combination of increased additions to the Devens Water Utility Division offset by \$6.7 million of depreciation expense during the fiscal year. See Note 9 to the financial statements for more information on capital assets.

Liabilities

The Agency's current liabilities consist of accounts payable and accrued expenses, current portions of bonds payable, advances from the Commonwealth, lease liability and subscription liability, accrued interest payable and other current liabilities. Noncurrent liabilities consist of long term portion of bonds payable, advances from the Commonwealth, lease liability and subscription liability and other noncurrent liabilities.

Current liabilities increased \$17.9 million from 2022 to 2023 mainly due to increased shorter term deferred advances received from the Commonwealth for future grant awards or capital projects which was a shift from noncurrent liabilities and increased accruals at June 30, 2023.

Noncurrent liabilities remained consistent from 2022 to 2023 mainly due to the combination of new loan advances related to new water treatment plants at Devens and decreased longer term deferred advances received from the Commonwealth for future grant awards or capital projects which was a shift to current liabilities.

Devens Electric System Utility Bond

Bonds payable consist of the following at the years ended June 30:

	2023	2022
Devens Electric System Utility Bonds	\$ 4,135,000	\$ 4,620,000

Bonds payable decreased \$0.5 million from 2022 to 2023 due to a principal payment for the Devens Electric System Utility bonds during the fiscal year.

During fiscal year 2001, the Agency issued the Devens Electric System Revenue Bonds (Series 2001 Bonds) for the Devens project which totaled \$10.6 million. The Agency acquired the electric transmission and distribution facilities (Electric System) serving Devens from the Army in 1996. The Electric System includes four transmission substations that interconnect Devens with the regional transmission system serving New England, as well as electric distribution facilities serving the area within Devens. The Series 2001 Bonds were used to finance the design, construction, installation and associated costs of certain capital improvements to the Electric System at Devens.

In an effort to lower the weighted average interest rate on the bonds, the Agency refunded the Series 2001 Bonds in December 2011 and issued the Devens Electric System Refunding Revenue Bonds, Series 2011 (Series 2011 Bonds). Principal of \$8,775,000 was repaid in relation to the Series 2001 Bonds and new principal of \$8,145,000 was issued. In an additional effort to lower the interest rate on the bonds, the Agency refunded the Series 2011 Bonds and issued the Devens Electric System Refunding Revenue Bonds, Series 2021 (Series 2021 Bonds). Principal of \$4,855,000 was repaid in relation to the Series 2011 Bonds and new principal of \$4,755,000 was issued.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default as long as the Agency complies with specific requirements included in the agreement. As of June 30, 2023, the debt service coverage was met. As of June 30, 2022, the necessary debt service coverage was not met. The Agency, as allowed in the bond documents, utilized the cure period and increased electric rates during fiscal year 2023.

See Note 13 to the financial statements for more information on bonds payable.

Advances from the Commonwealth

Advances from the Commonwealth consist of the following for the years ended June 30:

	2023	2022
Massachusetts Department of Environmental Protection-wastewater Premium	\$ 5,580,528 1,388	\$ 6,198,069 2,578
Massachusetts Department of Environmental Protection-water	<u>19,829,763</u>	<u>4,855,759</u>
	<u>\$ 25,411,679</u>	<u>\$ 11,056,406</u>

Massachusetts Department of Environmental Protection

In 2001 and 2004, the Massachusetts Department of Environmental Protection (DEP) approved loans to the Agency to construct a wastewater treatment facility at Devens. In addition, The Massachusetts Water Abatement Trust currently known as The Massachusetts Clean Water Trust (MCWT), issued loans to the Agency. These loans will be paid back to the trust through revenues generated from processing of wastewater from Devens and surrounding communities. The Agency and the Commonwealth have entered into a contract providing that the Commonwealth shall pay contract assistance on behalf of the Agency with respect to partial debt service on this loan.

The MCWT loan agreement requires the maintenance of an adequate annual debt service coverage ratio. As of June 30, 2023 and 2022, the necessary debt service coverage was met.

In 2022, the DEP approved another loan to the Agency to construct two water treatment plants at Devens for iron and manganese removal and per- and polyfluoroalkyl substances (PFAS) treatment for existing Devens wells. The MCWT issued this loan to the Agency. The loan will be paid back to the trust through revenues generated from the sale of water in Devens and to surrounding communities.

See Note 14 to the financial statements for more information on Advances from the Commonwealth.

Lease Liability

Lease liability consists of leases in which the Agency is the lessee of office space or equipment. In accordance with GASB No. 87, the lease liability is measured at the present value of lease payments expected to be paid during the lease terms. As of June 30, 2023 and 2022, there was \$3.2 million and \$3.7 million, respectively, of lease liability. The decrease from 2022 to 2023 is mainly due to payments on leases, offset by additions for new leases during the fiscal year. See Note 10 to the financial statements for more information on lease liability.

SBITA Liability

SBITA liability consists of subscription-based information technology arrangements in which the Agency is using a third party software in areas such as payroll processing and financial reporting. In accordance with GASB No. 96, the lease liability is measured at the present value of subscription payments expected to be paid during the subscription term. As of June 30, 2023 and 2022, there was \$0.4 million and \$0.3 million, respectively, of subscription liability. The increase from 2022 to 2023 is mainly due to payments on subscriptions, offset by additions for new subscriptions during the fiscal year. See Note 11 to the financial statements for more information on SBITA liability.

Deferred Inflows of Resources

In accordance with GASB No. 87, the Agency reported \$4.4 million and \$10.2 million deferred inflows of resources as of June 30, 2023 and 2022, respectively. This represents the deferral of expected future receipts related to lease receivables. The decrease from 2022 to 2023 is mainly related to the termination of the leases for the Springfield, MA building as it was sold during the fiscal year.

Net Position

Net position represents the residual interest in the Agency's assets plus deferred outflows of resources after all liabilities plus deferred inflows of resources are deducted. The Agency's net position was as follows at June 30:

	2023	As Restated 2022
Net investment in capital assets	\$ 65,851,071	\$ 78,709,236
Restricted	211,101,968	183,615,589
Unrestricted	151,179,172	159,396,034
	<u>\$ 428,132,211</u>	<u>\$ 421,720,859</u>

Net position increased by \$6.4 million from 2022 to 2023 mainly due to a combination of a \$15.9 million operating loss and \$39.8 million of grant award disbursements, offset by a \$49.5 million contribution from the Commonwealth, \$2.2 million in capital grant revenue and \$10.6 million of investment income.

Revenues and Expenses

	2023	As Restated 2022
Operating revenues	\$ 74,836,018	\$ 66,818,326
Operating expenses	<u>(90,779,873)</u>	<u>(78,069,566)</u>
Operating loss	(15,943,855)	(11,251,240)
Nonoperating revenues (expenses), net	10,423,325	(2,666,735)
Capital contributions, net	<u>11,931,882</u>	<u>10,497,644</u>
Increase (decrease) in net position	<u>\$ 6,411,352</u>	<u>\$ (3,420,331)</u>

Operating Revenues

	2023	2022
Devens operating revenue	\$ 54,232,541	\$ 44,721,232
Interest and other loan income	5,740,625	5,904,593
Interest income - leased assets	252,990	431,038
Bond issuance and New Markets Tax Credit fees	9,848,996	7,048,993
Lease income	1,629,242	3,384,295
Other	2,063,559	1,713,053
Gain on share of joint ventures	-	379,947
Gain on sale of real estate, net	1,068,065	3,235,175
	<u>\$ 74,836,018</u>	<u>\$ 66,818,326</u>

Operating revenues increased by \$8.0 million from 2022 to 2023 mainly due to increases of \$9.5 million in Devens operating revenue and \$2.8 million in bond issuance and New Markets Tax Credit fees, offset by decreases of \$1.8 million in lease income and \$2.2 million in gain on sale of real estate, net.

Devens operating revenue, which includes utility income and real estate taxes, is an important component of the Agency's operating revenue. The Agency owns the utility systems at Devens and provides electricity, natural gas, water and sewer services to the Devens community. The utility staff works in conjunction with operations and maintenance contractors to maintain, upgrade and expand the utility systems. The current systems consist of five transmission substations, approximately 73 miles of distribution power lines, three miles of transmission power lines, three active drinking water wells and pumping stations, approximately 50 miles of water line, 32 miles of natural gas pipeline, a wastewater treatment facility, six sewer lift stations and 50 miles of sewer. Devens operating revenue increased by \$9.5 million from 2022 to 2023 mainly due to increased real estate tax revenue due to new growth and increased assessed values and increased electric income due to increased rates.

Interest and other loan income represents income related to outstanding loans issued by the Agency. The amount decreased slightly from 2022 to 2023.

Interest income-leased assets represents interest earned on outstanding lease receivable. In accordance with GASB No. 87, a portion of lease payment received is recognized as interest income as future lease payments to be received are discounted using an implicit borrowing rate. The decrease of \$0.2 million from 2022 to 2023 is due to the termination of leases at the Springfield, MA property due to the sale of the building during the fiscal year.

Bond issuance fees and NMTC fees represent revenue generated by the Agency as a conduit issuer of taxable and tax-exempt bonds or fees related to the allocation of federal NMTCs. The increase of \$2.8 million from 2022 to 2023 mainly consists of increased bond issuance fees due to increased bond financing amounts for housing entities in fiscal year 2023.

Lease income represents revenue generated by tenant leases in Devens, Greenfield and Springfield, MA. The decrease from 2022 to 2023 was mainly due to the end of lease revenue at the Springfield, MA property due to the sale of the building during the fiscal year.

Other operating income mainly consists of real estate advisory service fees and other miscellaneous operating revenues. The amounts were consistent from 2022 to 2023.

The gain on share of other investments represents the Agency’s share of operating gains on the Agency’s other investments. The gain on share of other investments in 2022 was mainly related to a gain on the Commonwealth Fund III LLC investment for the fiscal year. There was a loss on share of other investments in fiscal year 2023.

The gain on sale of real estate, net of \$1.1 million in fiscal year 2023, was mainly due to a combination of a \$2.2 million gain on sale for the Springfield, MA building sold during the fiscal year and the recognition of a \$0.8 million gain on sale of a Devens property sold in a previous fiscal year for which the recognition of the sale had been deferred due to repurchase and future commitment agreements. There was also a loss on sale of \$1.6 million related to the sale of the Worcester, MA building during the fiscal year.

The gain on sale of real estate, net of \$3.2 million in fiscal year 2022, was due to the recognition of gains on sale of properties sold in previous fiscal years for which the recognition of the sales had been deferred due to repurchase and future commitment agreements.

Operating Expenses

	2023	As Restated 2022
Salaries and related employee expenses	\$ 24,888,946	\$ 22,447,747
Property, maintenance and utilities	37,543,050	35,019,498
General and administrative	4,092,293	2,785,843
Project and professional expenses	11,558,849	7,015,314
Provision for loan loss	3,839,165	1,838,959
Provision for Predevelopment and Brownfield receivables	(18,880)	295,714
Loss on share of joint ventures	436,347	-
Loss on lease termination	259,952	-
Depreciation - capital assets	6,662,267	7,230,345
Amortization -right to use leased assets	1,288,234	1,302,052
Amortization - right to use subscription assets	229,650	134,094
	<u>\$ 90,779,873</u>	<u>\$ 78,069,566</u>

Operating expenses increased by \$12.7 million from 2022 to 2023 mainly due to the combination of increased salary and related employee expenses, property, maintenance and utilities expenses, project and professional expenses and provision for loan loss.

Salaries and related employee expenses increased \$2.4 million from 2022 to 2023 due to increased headcount due to the expansion of the Transformative Development Initiative Program, cost of living adjustments and increased health insurance costs.

Property, maintenance and utilities expenses increased by \$2.5 million from 2022 to 2023. The increase was mainly due to increased electric utility purchases due to increased power supply cost during the fiscal year.

General and administrative expenses increased \$1.3 million from 2022 to 2023 mainly due to increased tax abate reserves, bad debt expense, training, sponsorships and rent expense.

Project and professional project expenses increased by \$4.5 million from 2022 to 2023 mainly due to increased project expenses for site readiness, New Bedford State Pier and Belchertown during the fiscal year.

Provision for loan loss represents the expense necessary to maintain an adequate allowance for loan losses. The provision increased in fiscal year 2023 due to increased loan disbursements for the General Operations Program and the Emerging Technology Program.

Provision for Predevelopment and Brownfield receivables represents the allowance necessary to absorb probable losses of existing awards that are expected to become uncollectible. The provision decreased by \$0.3 million from 2022 to 2023 due to fewer disbursements and more repayments during the fiscal year.

The loss on share of other investments represents the Agency's share of operating losses on the Agency's other investments. The loss on share of other investments in 2023 was mainly related to losses on the Commonwealth Fund III LLC and Commonwealth Fund IV LLC investments for the fiscal year. There was a gain on share of other investments in fiscal year 2022.

Depreciation-capital assets decreased \$0.6 million from 2022 to 2023 mainly related to less depreciation for the Springfield, MA building due to the sale of the building during the fiscal year..

Amortization-right to use leased assets and amortization-right to use subscription assets were consistent from 2022 to 2023.

Non-operating Revenues (Expenses)

	2023	As Restated 2022
Investment income	\$ 10,624,390	\$ (2,264,782)
Contract assistance	351,419	362,626
Interest expense	(364,085)	(471,058)
Interest expense - right to use leased assets	(142,334)	(152,038)
Interest expense - right to use subscription assets	(17,592)	(11,910)
Financing costs and amortization of bond discount, net	(28,473)	(129,573)
	<u>\$ 10,423,325</u>	<u>\$ (2,666,735)</u>

Non-operating revenues (expenses) consist mainly of investment income, contract assistance, interest expense, financing costs and other. The increase of \$13.1 million from 2022 to 2023 is mainly related to increased investment income.

Investment income increased \$12.9 million from 2022 to 2023 mainly due to increased average investment balances and increased interest rates for the fiscal year. There were also unrealized gains on investments during fiscal year 2023, whereas, there were unrealized losses on investment during fiscal year 2022.

Contract assistance represents the debt service for the MCWT loan to build a wastewater treatment plant at Devens. The debt services payments are made by the Commonwealth directly and are recognized as non-operating income by the Agency.

Interest expense of \$0.4 million and \$0.5 million was recognized in 2023 and 2022, respectively. Interest expense includes interest for the Electric System Utility bonds issued for the acquisition of the electric transmission and distribution facility at Devens and the MCWT loan for the construction of the wastewater treatment facility at Devens.

Interest expense-leased assets of \$0.1 million and \$0.2 million was recognized in 2023 and 2022, respectively. Interest expense-leased assets includes interest paid for leases in which the Agency is the lessee for office space or equipment.

Interest expenses-subscription assets includes interest paid for subscription based information technology agreements for which the Agency is using a third party software.

Financing costs and amortization of bond discount, net represents the costs associated with the refinancing of the Electric System Utility bonds during the fiscal year and amortization of the discount for the Electric System Utility bonds over the term of the related bonds. The Electric System Utility bond was refinanced during fiscal year 2022 and the remaining bond discount was fully amortized. See Note 13 to the financial statements for more information on bonds payable and the refinancing.

Capital Contributions (Distributions)

	2023	As Restated 2022
Contributions from the Commonwealth of Massachusetts	\$ 49,489,911	\$ 34,541,421
Capital grant revenue	2,209,338	2,443,599
Predevelopment and Brownfield awards	(3,267,265)	(2,210,728)
Cultural Facilities grant awards	(9,603,471)	(8,156,509)
Military Bond Bill grant awards	(301,000)	(3,822,662)
Underutilized Properties grant awards	(9,022,475)	(1,229,236)
Transformative Development Initiative grant awards	(5,223,657)	(1,675,942)
Transportation Infrastructure Enhancement Trust grant awards	(5,608,766)	(57,397)
Innovation Voucher grant awards	(2,025,150)	(1,623,063)
Community Innovation Infrastructure grant awards	(725,178)	(994,300)
Other grant awards	(3,990,405)	(6,717,539)
	<u>\$ 11,931,882</u>	<u>\$ 10,497,644</u>

Capital contributions increased \$1.4 million from 2022 to 2023 mainly due to the combination of increased recognition of contributions from the Commonwealth, offset by increased grant awards during the fiscal year.

Contributions from the Commonwealth of \$49.5 million and \$34.5 million, were recognized in fiscal years 2023 and 2022, respectively. The fiscal year 2023 amounts mainly include \$10.3 million for the Cultural Facilities Program, \$9.4 million for the Underutilized Properties Program, \$8.9 million for the State Small Business Credit Initiative Program, and \$5.4 million for the Transportation Infrastructure

Enhancement Trust Program. The fiscal year 2022 amounts mainly include \$9.0 million for the Cultural Facilities Program, \$12.6 million for the General Fund Program, \$3.8 million for the Military Bond Bill Program, \$1.9 million for the Site Readiness Program and \$1.7 million for the Underutilized Properties Program.

Capital grant revenue of approximately \$2.2 million, and \$2.4 million was recognized in fiscal years 2023 and 2022, respectively. The fiscal year 2023 amount was mainly related to \$2.0 million for the Transformative Development Initiative program to assist with redevelopment of Gateway cities. The fiscal year 2022 amount was mainly related to \$0.7 million for the CARES Act Revolving Loan Fund program to help alleviate severe economic dislocation caused by the coronavirus pandemic, \$0.7 million for the Transformative Development Initiative program to assist with redevelopment of Gateway cities and \$0.7 million to assist with funding an outdoor event space in historic downtown Lowell, MA historic district.

The Agency disbursed \$9.6 million and \$8.2 million in fiscal years 2023 and 2022, respectively, to various recipients in support of acquisition, design, construction, repair, renovation, rehabilitation or capital improvements or deferred maintenance of a cultural facility.

The Agency disbursed \$0.3 million and \$3.8 million in fiscal years 2023 and 2022, respectively, to various recipients in support of military installation development projects across the Commonwealth.

The Agency disbursed \$9.0 million and \$1.2 million in fiscal years 2023 and 2022, respectively, to various recipients in support of projects that will improve, rehabilitate or redevelop blighted, abandoned, vacant or underutilized properties to achieve the public purposes of eliminating blight, increasing housing production, supporting economic development projects and increasing the number of commercial buildings accessible to persons with disabilities.

The Agency disbursed \$5.2 million and \$1.7 million in fiscal years 2023 and 2022, respectively, to various recipients in support of the redevelopment of Gateway cities in the Commonwealth.

The Agency disbursed \$5.6 million in fiscal year 2023 to various recipients in support of providing financial assistance to small businesses operating in the taxicab, livery or hackney industries to promote the adoption of new technologies and support workforce development.

The Agency disbursed \$2.0 million and \$1.6 million in fiscal years 2023 and 2022, respectively, to various recipients in support of providing a voucher program to small corporations and start-up companies for sharing the use of core facilities at the University of Massachusetts.

The Agency disbursed \$0.7 million and \$1.0 million in fiscal years 2023 and 2022, respectively, to various recipients in support of providing grants to businesses to plan and study the feasibility of new collaborative workspaces, building improvements and equipment purchases.

The Agency disbursed \$4.0 million and \$6.7 million in fiscal years 2023 and 2022, respectively to various recipients in support of various projects throughout the Commonwealth.

Requests for Information

This financial report is designed to provide a general overview of the Agency’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, Massachusetts Development Finance Agency, 99 High Street, 11th Floor, Boston, MA, 02110.

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Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Net Position
June 30, 2023

Assets	
Current assets	
Cash and cash equivalents	\$ 29,414,826
Cash and cash equivalents - restricted for use	163,544,203
Investments	11,300,695
Investments - restricted for use	79,535,579
Loans receivable, net	17,767,700
Lease receivable	324,189
Interest receivable	638,054
Accounts receivable and other assets (net of allowance of \$681,398 at June 30, 2023)	8,796,765
Due from the Commonwealth of Massachusetts	2,364,808
Project escrow deposits	1,920,081
Assets held for sale	3,356,848
Total current assets	<u>318,963,748</u>
Noncurrent assets	
Cash and cash equivalents - restricted for capital use	9,630,044
Cash and cash equivalents - restricted for use	1,942,254
Investments	10,194,470
Investments - restricted for use	8,426,379
Other investments	7,536,190
Loans receivable (net of allowance of \$16,533,306 at June 30, 2023)	100,736,369
Lease receivable	4,309,925
Predevelopment and Brownfield receivables (net of allowance of \$9,518,301 at June 30, 2023)	327,775
Assets held for sale	1,872,743
Right to use leased assets, net of amortization	2,638,340
Right to use subscription assets, net of amortization	544,268
Capital assets, net	90,210,112
Total noncurrent assets	<u>238,368,869</u>
Total assets	<u>\$ 557,332,617</u>
Liabilities, Deferred Inflows of Resources and Net Position	
Current liabilities	
Accounts payable and accrued expenses	\$ 14,649,203
Current portion of bonds payable	490,000
Advances from the Commonwealth of Massachusetts	638,289
Lease liability	1,471,406
Subscription liability	170,370
Accrued interest payable	182,527
Project escrow payable	2,144,767
Deferred revenue and other liabilities	49,600,797
Total current liabilities	<u>69,347,359</u>
Noncurrent liabilities	
Bonds payable	3,645,000
Advances from the Commonwealth of Massachusetts	24,773,390
Lease liability	1,713,349
Subscription liability	225,799
Deferred revenue and other liabilities	25,107,140
Total noncurrent liabilities	<u>55,464,678</u>
Total liabilities	<u>124,812,037</u>
Deferred inflows of resources	
Leases deferred inflows of resources	4,388,369
Total deferred inflows of resources	<u>4,388,369</u>
Net position	
Net investment in capital assets	65,851,071
Restricted due to statutory, contractual or bond covenants	211,101,968
Unrestricted	151,179,172
Total net position	<u>428,132,211</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 557,332,617</u>

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2023

Revenues	
Operating revenues	
Devens operating revenue	\$ 54,232,541
Interest and other loan income	5,740,625
Interest income - leased assets	252,990
Bond issuance and New Markets Tax Credit fees	9,848,996
Lease income	1,629,242
Other	2,063,559
Gain on sale of real estate, net	1,068,065
Total operating revenues	<u>74,836,018</u>
Expenses	
Operating expenses	
Salaries and related employee expenses	24,888,946
Property, maintenance and utilities	37,543,050
General and administrative	4,092,293
Project and professional expenses	11,558,849
Provision for loan loss	3,839,165
Provision for Predevelopment and Brownfield receivables	(18,880)
Loss on share of other investments	436,347
Loss on lease termination	259,952
Depreciation - capital assets	6,662,267
Amortization - right of use leased assets	1,288,234
Amortization - right to use subscription assets	229,650
Total operating expenses	<u>90,779,873</u>
Operating loss	(15,943,855)
Nonoperating revenues (expenses)	
Investment income	10,624,390
Contract assistance	351,419
Interest expense	(364,085)
Interest expense - right to use leased assets	(142,334)
Interest expense - right to use subscription assets	(17,592)
Financing costs and amortization of bond discount, net	(28,473)
Nonoperating revenues (expenses), net	<u>10,423,325</u>
Loss before capital contributions (distributions)	(5,520,530)
Capital contributions (distributions)	
Contributions from the Commonwealth of Massachusetts	49,489,911
Capital grant revenue	2,209,338
Predevelopment and Brownfield grant awards	(3,267,265)
Cultural Facilities grant awards	(9,603,471)
Military Bond Bill grant awards	(301,000)
Underutilized Properties grant awards	(9,022,475)
Transformative Development Initiative grant awards	(5,223,657)
Transportation Infrastructure Enhancement Trust grant awards	(5,608,766)
Innovation Voucher grant awards	(2,025,150)
Community Innovation Infrastructure grant awards	(725,178)
Other capital grant awards	(3,990,405)
Total capital contributions net	<u>11,931,882</u>
Increase in net position	6,411,352
Net position	
Net position - beginning of year-restated	<u>421,720,859</u>
Net position - end of year	<u>\$ 428,132,211</u>

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Cash Flows
Year Ended June 30, 2023

Cash flows from operating activities	
Receipts from Devens operating income	\$ 54,022,129
Receipts from bond issuance fees	9,893,943
Receipts from other operating income	2,061,476
Receipts from other lease income	836,559
Payment of salaries and related employees expenses	(25,313,769)
Payment of property, maintenance and utilities expenses	(36,826,205)
Payment of general and administration expenses	(3,602,238)
Payment of project and professional expenses	(9,380,471)
Project escrows, draws	378,883
Project escrows, deposits	(378,450)
Net cash used in operating activities	<u>(8,308,143)</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(21,077,944)
Principal payments on debt obligations	(960,725)
Principal advances on debt obligations	14,974,004
Payment of financing costs	(28,473)
Proceeds from sale of capital assets	13,401,857
Receipts from capital grants	2,373,044
Payment of Predevelopment and Brownfield grant awards	(3,257,888)
Payment of Cultural Facilities grant awards	(9,853,530)
Payment of Military Bond Bill grant awards	(550,255)
Payment of Transformative Development Initiative grant awards	(5,024,784)
Payment of Transportation Infrastructure Enhancement Trust grant awards	(5,588,766)
Payment of Innovation Voucher grant awards	(2,025,150)
Payment of Community Innovation Infrastructure grant awards	(730,786)
Payment of other capital grants	(3,289,463)
Payment of Underutilized Property grant awards	(8,595,004)
Receipts of contributions from the Commonwealth of Massachusetts	50,221,172
Receipts from lease income	742,475
Receipts from interest on leases	271,134
Payments on lease liability	(1,459,029)
Payments on lease accrued interest payable	(141,402)
Payments on subscription liability	(265,537)
Payments on right to use subscription asset accrued interest payable	(12,433)
Payment of interest	(164,222)
Net cash provided by capital and related financing activities	<u>18,958,295</u>
Cash flows from investing activities	
Purchases of investments	(66,243,448)
Sales of investments	78,826,866
Purchases of other investments	(1,560,539)
Distributions from other investments	2,361
Disbursements of loans	(31,829,012)
Collections and recoveries of loans	12,013,756
Receipts from interest on loans	5,628,009
Payment of Predevelopment and Brownfield receivables	118,505
Advance of Predevelopment and Brownfield receivables	(21,492)
Receipts of investment income	8,013,163
Net cash used in investing activities	<u>4,948,169</u>
Net increase in cash and cash equivalents	15,598,321
Cash and cash equivalents at beginning of year-restated	<u>188,933,006</u>
Cash and cash equivalents at end of year	<u>\$ 204,531,327</u>
Supplemental disclosure of noncash activity:	
Contract assistance	\$ 351,419
Contributions from the Commonwealth of Massachusetts	1,416,107
Capital grant revenue	300,000
Interest expense	209,601
Grant awards	(2,133,670)
Unrealized gain on investments	2,520,548
Capital additions included in accounts payable and accrued expenses	(182,020)

(continued)

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Cash Flows
Year Ended June 30, 2023

Cash flows from operating activities

Operating loss \$ (15,943,855)

Adjustments to reconcile operating loss to net cash used in operating activities:

Bad debt 264,012
Lease income (827,561)
Interest income-leases (271,134)
Interest and other loan income (5,628,009)
Depreciation and amortization 8,180,151
Gain on sale of real estate, net (1,068,065)
Provision for loan loss 3,839,165
Provision for Predevelopment and Brownfield receivables (18,880)
Loss on lease termination 259,952
Gain on share of other investments 436,347

Changes in assets and liabilities:

Project escrows assets 378,883
Interest receivable (49,209)
Accounts receivable and other assets (625,495)
Accounts payable and accrued expenses 3,086,231
Project escrow payable (378,450)
Other liabilities 57,774

Total adjustments 7,635,712

Net cash used in operating activities \$ (8,308,143)

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statements of Fiduciary Net Position
June 30, 2023

	Investment Trust Fund *	Private Purpose Trust Funds
Assets		
Cash and cash equivalents	\$ 94,216	\$ 441,887
Investments	55,110,898	8,856,730
Interest receivable	392,915	-
Prepaid expenses	5,971	-
Total assets	55,604,000	9,298,617
Liabilities		
Investment advisory fees	23,432	-
Administration fees	15,564	-
Professional fees	29,300	4,032
Other accrued expenses	11,439	-
Total liabilities	79,735	4,032
Net position restricted for participants	\$ 55,524,265	\$ 9,294,585

* Investment Trust Fund stated as of December 31, 2022

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statements of Changes in Fiduciary Net Position
Year Ended June 30, 2023

	Investment Trust Fund *	Private Purpose Trust Funds
Additions		
Investment income	\$ 3,474,421	\$ 672,345
Deductions		
Investment advisory fees	267,795	-
Administration fees	176,369	-
Salary and related employee expense	-	54,543
Professional fees	28,733	42,126
Grant expenses	-	150,786
Other expenses	6,490	-
Total	<u>479,387</u>	<u>247,455</u>
Net increase before share transactions	2,995,034	424,890
Net share transactions	<u>(117,152,619)</u>	<u>-</u>
Net increase (decrease) in net position	(114,157,585)	424,890
Net restricted position - beginning of year-restated	169,681,850	8,869,695
Net restricted position - end of year	<u>\$ 55,524,265</u>	<u>\$ 9,294,585</u>

* Investment Trust Fund stated as of December 31, 2022

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements

1. Authorizing Legislation

Massachusetts Development Finance Agency (the Agency or MDFA) was created on September 30, 1998 pursuant to Chapter 23G of Massachusetts General Laws (MGL) (Chapter 289 of the Acts of 1998). The Agency is a body corporate and politic instrumentality and was created from the statutory merger of, and is the legal successor in all respects to two previous existing instrumentalities, the Massachusetts Government Land Bank (Land Bank) (created in 1975 under Chapter 212 of the Acts of 1975) and the Massachusetts Industrial Finance Agency (MIFA) (created 1978 pursuant to chapter 23A of the MGL) and is the legal successor to the Massachusetts Health and Educational Facilities Authority (HEFA) (created pursuant to Chapter 614 of the Acts of 1968). Other powers of the Agency are also set forth in MGL's Chapter 40D (with respect to the issuance of taxable and tax-exempt bonds) and chapter 498 of the Acts of 1993, as amended (with respect to the redevelopment of the former Fort Devens (Devens), a closed federal military base). The purpose of the Agency is to stimulate economic growth, increase employment, eradicate blight, promote prosperity and help build communities throughout the Commonwealth of Massachusetts (Commonwealth). It does this through its powers to issue taxable and tax-exempt bonds for the benefit of industrial and commercial entities, institutions, health care and housing facilities, public bodies and other non-profit organizations; making loans and providing credit to eligible borrowers in accordance with its public purposes; and aiding public and private enterprises in the redevelopment of surplus federal and state property and other blighted, open, underdeveloped property. It also administers specific statutory funds directed at certain economic development needs in the Commonwealth, such as, Brownfields Redevelopment Program (Brownfields), Emerging Technology Program (ETP), Cultural Facilities Program, Massachusetts Export Finance Program, Credit Enhancement of Charter School Facilities Program, Site Readiness Program, Military Bond Bill Capital Projects Program (MBB), Transformative Development Initiative Program (TDI), redevelopment of the Belchertown State School, Transportation Infrastructure Enhancement Trust Program, Innovation Voucher Program, Underutilized Properties Program, State Small Business Credit Initiative and Community Innovation Infrastructure Program. The Agency also has the power to issue debt for the redevelopment of Devens.

The Agency is governed by an 11-member Board of Directors (Board), nine of whom are appointed directly by the Governor and two of whom are public officials, or their designees, serving ex officio.

In accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, GASB No. 39, *Determining Whether Certain Organizations Are Component Units - an Amendment of GASB Statement 14*, GASB No. 61, *the Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34* and GASB No. 84, *Fiduciary Activities*, the financial statements must present the Agency and its component units. The Agency, itself, is considered a component unit of the Commonwealth and, accordingly, its financial statements are incorporated into the financial statements of the Commonwealth.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements

The Agency's financial statements include the following blended component unit:

Taunton Development MassDevelopment Corporation

In January 2012, the Agency, in partnership with Taunton Development Corporation, purchased from the Commonwealth the former Dever State School core campus in Taunton, MA. The property consists of approximately 220 acres with approximately 40 dilapidated buildings and underground tunnels. A new non-profit corporation called Taunton Development MassDevelopment Corporation (TDMDC) was formed to own and redevelop the property. Redevelopment of the property includes expansion of the existing 150 acres of the Myles Standish Industrial Park and development of a life science park including a training/education center. Grants have been provided by the Commonwealth through MassWorks and by the United States Department of Commerce Economic Development Administration. TDMDC is included in the financial statements of the Agency as the majority of the TDMDC board members are executives of the Agency. The Agency also provides consultant services related to the redevelopment of the property and financial services for TDMDC. The net position of TDMDC was approximately \$9.5 million as of June 30, 2023. TDMDC does not issue stand-alone financial statements.

MassDevelopment New Markets LLC (MDNM)

The Agency, via subsidiary entity, MDNM, was awarded, since inception of the federal New Markets Tax Credit Program, the right to allocate federal New Markets Tax Credit's against \$341.0 million of its investors' investments by the United States Department of the Treasury. The Agency has a 0.01% to 0.10% investment allocation in the related investments. See Note 5 for more information.

STAR Fund

The Massachusetts Development Finance Agency Short-Term Asset Reserve Fund (formerly known as HEFA Short-Term Asset Reserve Fund) (STAR Fund) was established on July 16, 1991 under the laws of the Commonwealth, Chapter 614, of the Acts of 1968, to make available comprehensive investment management of proceeds of bonds and other obligations issued by HEFA on behalf of its institutional borrowers. The STAR Fund is a short-term money market portfolio which seeks to preserve principal and maintain liquidity. Pursuant to Chapter 240 of the Acts of 2010 of the Commonwealth, HEFA was merged into the Agency effective October 1, 2010. All rights, powers, duties and properties of HEFA related to the STAR Fund transferred to the Agency as of this date and the name was changed. The Agency is the administrator of the STAR Fund. Pursuant to the provisions of GASB No. 84, *Fiduciary Activities*, the STAR Fund qualifies as a fiduciary component unit of the Agency. As a result, the assets and corresponding net position of the STAR Fund are accounted for as a fiduciary activity as of December 31, 2022 and included in the statement of fiduciary net position and statement of changes in fiduciary net position as of June 30, 2023. The STAR Fund reports on a December 31 year end. If the STAR Fund were to terminate, all remaining funds would be due back to the participants in the STAR Fund. A copy of the financial statements of the STAR Fund can be obtained from the Office of the Chief Financial Officer, Massachusetts Development Finance Agency, 99 High Street, 11th floor, Boston, MA 02110.

Massachusetts Development Finance Agency
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MassDevelopment/HEFA Trust (Trust)

The Trust was established on July 8, 1997 as an irrevocable trust. The Trust's net position is subject to restrictions regarding its use. The Trust is authorized to make payments to charitable organizations or governmental entities, such as public colleges and universities, to assist in the form of gifts, grants and loans. The General Operations Program may be eligible to receive the income and up to 10% of the principal from the Trust at the trustees' direction. All payments to the General Operations Program shall be used by the Agency only to reduce charges it would otherwise have to impose upon institutions using the Agency's services, and all payments to charitable institutions or governmental entities must be for their charitable and governmental purposes, respectively. Pursuant to the provisions of GASB No. 84, *Fiduciary Activities*, the Trust qualifies as a fiduciary component unit of the Agency. As a result, the assets and corresponding net position of the Trust are accounted for as a fiduciary activity and included in the statement of fiduciary net position and statement of changes in fiduciary net position as of June 30, 2023.

Income Taxes

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

2. Significant Accounting Policies

Accounting and Reporting Standards

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the GASB, which establishes standards for defining and reporting on the financial reporting entity.

The GASB defines the basic financial statements of a business type activity as the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows. Management's discussion and analysis is required supplementary information. The statement of net position is presented to illustrate both the current and noncurrent balances of each asset and liability. All revenues and expenses are classified as either operating or nonoperating activities in the statement of revenues, expenses and changes in net position.

Operating activities are those that support the mission and purpose of the Agency. Nonoperating activities represent transactions that are capital, investing, legislative or regulated in nature.

Net position represents the residual interest in the Agency's assets plus deferred outflows of resources after liabilities plus deferred inflows of resources are deducted and consist of: net investment in capital assets, restricted, and unrestricted, as follows:

- **Net Investment in Capital Assets**

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets plus unspent bond proceeds. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition,

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construction, or improvement of those assets or related debt are included in this component of net position.

- **Restricted**

Net position is reported as restricted when there are third-party limitations (statutory, contractual or bond covenant) on its use. The STAR Fund's net position is restricted for pool participants.

Nonexpendable – Net position subject to externally imposed stipulations such that the Agency maintains them permanently. For the years ended June 30, 2022, the Agency did not have any nonexpendable restricted net position.

Expendable – Net position whose use by the Agency is subject to externally imposed stipulations that can be fulfilled by actions of the Agency pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted**

Net position that is not subject to externally imposed stipulations. 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.

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, liabilities and deferred inflows of resources and disclosure of contingent assets, liabilities and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting in conformity with GAAP. Under the accrual basis, revenue is recognized when earned and expenses are recognized when obligations are incurred or when benefits are received.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with maturities of three months or less at acquisition. Current cash and cash equivalents consist of unrestricted funds available for general operating purposes for the General Operations Program and TDMDC. Current cash and cash equivalents-restricted for use consist of available funds for current operations related to the Devens Electric Utility Division and available funds for loan, guarantee, grant or capital activity for restricted programs. Noncurrent cash and cash equivalents restricted for capital use consist of funds available for future capital improvements. Noncurrent cash and cash equivalents-restricted for use consist of funds available for future debt service payments, project reserves and future operations when there are not sufficient funds available from current operations. Cash and cash equivalents includes the Agency's investments in the STAR Fund. Pursuant to GASB No. 79, *Certain External Investment Pools and Pool Participants*, the STAR Fund is a qualifying external investment pool that measures for financial reporting purposes all

Massachusetts Development Finance Agency
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of its short-term money market portfolio at amortized cost. See Note 4 for more information related to the STAR Fund.

Investments

The Agency's investments are generally reported at fair value using quoted market price as defined by GASB No. 72, *Fair Value Measurement and Application*, except for the guaranteed investment contract (GIC), which is reported at contract value. Contract value represents contributions made under the contract plus accrued interest. GASB No. 72 also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumptions.

The Agency has loan agreements within the ETP, established under Sections 27 and 28 of MGL Chapter 23G. Certain loan agreements include separate warrants that qualify as reportable derivative instruments under GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The value of these warrants is ultimately dependent upon the fair value of the companies which have issued the warrants. The ETP is a loan program designed to promote economic development in the emerging technologies sector of the Massachusetts economy. These loans are generally issued to companies that are otherwise unable to obtain market-based financing. The majority of these companies are pre-revenue start-up operations funded in part through the ETP to promote economic development in the Commonwealth. The Agency has developed a reliable estimate of the fair value of the related warrants using a comparable company analysis and last round of financing approach. See Note 4 for more information related to these derivative instruments.

All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statement of revenue, expenses and changes in net position.

The primary objectives of the Agency's investment policies are to ensure preservation of capital, to grow funds available to meet the expanding needs of lending capital in the Commonwealth, to ensure liquidity of investments to meet current and estimated cash flow needs by investing in instruments with structured maturities that are readily marketable and to provide maximum yield while maintaining safety and liquidity. The maturities of investments range from less than one year to greater than five years. Investments may include money market funds with maturities of three months or less. These money market funds are classified as investments since they are held for the primary purpose of meeting some of the Agency's investment objectives and are due to investment restrictions placed on the related programs.

Loans Receivable and Predevelopment and Brownfield Receivables, net

Loans receivable consist of loans issued by the Agency for various economic development programs. Predevelopment and Brownfield receivables consist of loans issued by the Agency to finance early-stage project costs (i.e., architectural and engineering costs) which are necessary to advance a project to the development stage.

These loans receivable are stated at principal amount outstanding, net of a provision for loan loss. Loans are charged against the provision for loan loss when the Agency believes the

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Notes to Financial Statements

collectability of the principal is unlikely. The provision for loan loss is an amount that the Agency believes will be adequate to absorb possible loan losses of existing loans that may become uncollectible. The loans receivable allowance was \$16,533,306 and the predevelopment and Brownfield Receivables allowance was \$9,518,301 as of June 30, 2023.

Leases (Lessor)

The Agency, as a lessor, recognizes a lease receivable at the commencement of the lease term, with certain exceptions for short-term leases and leases that transfer ownership of the underlying assets. The Agency's also uses a threshold for classification of a lease receivable of \$5,000. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received.

A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Key estimates and judgments include how the Agency determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

The Agency's policy is to use the Prime interest rate at lease commencement plus a bank spread of 25 basis points for leases with terms less than ten years and 75 basis points for leases with terms greater than ten years.

The lease term includes the non-cancellable period of the lease, plus any additional periods covered by the option to extend the lease for which it is reasonably certain to exercise. Periods for which both the Agency and the lessee have the option to terminate are excluded from the lease term.

Payments are evaluated by the Agency to determine if they should be included in the measurement of the lease receivable, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, lease incentives and other payments.

The Agency monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease receivable, the receivable is remeasured, and a corresponding adjustment is made to the deferred inflow of resources.

Other Investments

The Agency accounts for its participating interest in its other investments using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for the Agency's share of net income or loss, cash contributions or distributions to and from its other investments as well as impairment losses on the other investments. Any impairment loss represents a write down to the carrying value of the investment as projections related to the

Massachusetts Development Finance Agency
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investment show that it is not probable that the investment balance will be recoverable from distributions generated by future sales. These investments are deemed operating in nature as they support the mission and purpose of the Agency.

Impairment Loss on Other Investments

Management analyzes its other investments to determine whether the amounts are considered to be permanently impaired based upon its best estimates of the cash flows from the investment. If a permanent impairment in carrying value exists, a provision to write down the investment to the estimated cash flows realizable from the investment will be recorded in the Agency's financial statements. There were no impairment losses recognized in fiscal year 2023.

Accounts Receivable and Other Assets

The Agency evaluates the collectability of leases, utility and other accounts receivable after considering payment history. Although collection efforts continue, the Agency charges off any receivable balance that is deemed unlikely to be collected. Other assets mainly represents prepaid expenses.

Interest Receivable

Interest receivable represents the amount of interest revenue that was earned, but not yet received by the end of the fiscal year in relation to loans receivable, investments and lease receivable.

Interest income is recognized as earned. For loans receivable with interest payments in arrears, the Agency continues to accrue interest until such time as the loan agreement is restructured or the interest receivable is deemed to be uncollectible. When loans are restructured, interest payments in arrears, net of any amounts deemed uncollectible, are typically aggregated with the outstanding principal balance and interest is accrued on the new principal balance.

Project Escrows

The Agency holds funds consisting of cash and investments as collateral for mortgages receivable and as a source of payment for borrowers' obligations including tax and insurance payments. These amounts are recorded at market value and are held in separate bank accounts under the borrowers' tax identification numbers.

Due From the Commonwealth

Due from the Commonwealth represents amounts owed from the Commonwealth as of June 30, 2023, totaling \$2,364,808. The balance due from the Commonwealth mainly represents reimbursements due to the Agency for grant or project expenses incurred during the fiscal year.

Leases (Lessee)

The Agency is a lessee for various non-cancellable leases related to office space and equipment. For leases with a maximum possible term of 12 months or less at commencement, the Agency recognizes lease expense based on the provision of the lease. For all other leases (i.e. those that are not short-term), the Agency recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. The Agency's also uses a threshold for classification of a lease asset of \$5,000.

Massachusetts Development Finance Agency
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At lease commencement, the Agency initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, plus lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Key estimates and judgments include how the Agency determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

The Agency's policy is to use the Prime interest rate at lease commencement plus a bank spread of 25 basis points for leases with terms less than ten years and 75 basis points for leases with terms greater than ten years.

The lease term includes the non-cancellable period of the lease, plus any additional periods covered by the option to extend the lease for which it is reasonably certain to exercise. Periods for which both the Agency and the lessor have the option to terminate are excluded from the lease term.

Payments are evaluated by the Agency to determine if they should be included in the measurement of the lease liability, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, lease incentives, purchase options, payments for termination penalties and other payments.

The Agency monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured, and a corresponding adjustment is made to the lease asset.

Subscription-Based Information Technology Arrangements

The Agency has subscription-based information technology arrangements (SBITA) in which the Agency is using a third party software for such things as payroll processing and financial reporting. For SBITAs with a maximum possible term of 12 months or less at commencement, the Agency recognizes expense based on the subscription arrangement. For all other SBITAs (i.e. those that are not short-term), the Agency recognizes a subscription liability and an intangible right-to-use subscription asset in the financial statements. The Agency's also uses a threshold for classification of a SBITA asset of \$5,000.

At subscription commencement, the Agency initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial amount of the subscription liability, plus payments made at or before commencement date, plus any implementation costs, less any incentives received at or before the commencement date. Subsequently, the subscription asset is

Massachusetts Development Finance Agency
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amortized into depreciation expense on a straight-line basis over the shorter of the subscription term or the useful life of the underlying asset.

Key estimates and judgments include how the Agency determines (1) the discount rate it uses to calculate the present value of the expected subscription payments, (2) subscription term, and (3) subscription payments.

The Agency's policy is to use the Prime interest rate at subscription commencement plus a bank spread of 25 basis points for subscriptions with terms less than ten years and 75 basis points for subscriptions with terms greater than ten years.

The subscription term includes the non-cancellable period of the subscription, plus any additional periods covered by the option to extend for which it is reasonably certain to exercise. Periods for which both the Agency and the vendor have the option to terminate are excluded from the subscription term.

Payments are evaluated by the Agency to determine if they should be included in the measurement of the subscription liability, including those payments that require a determination of whether they are reasonably certain of being made, such as incentives and payments for termination penalties and other payments.

The Agency monitors changes in circumstances that may require remeasurement of a subscription. When certain changes occur that are expected to significantly affect the amount of the subscription liability, the liability is remeasured, and a corresponding adjustment is made to the subscription asset.

Capital Assets, Net

Capital assets are carried at cost less accumulated depreciation. The Agency's threshold for classification of a capital asset is \$5,000. Depreciation is recorded using the straight-line method over the estimated useful life of the asset ranging from 1 to 40 years as noted below:

	Depreciable Years
Land	N/A
Building	20-40
Buildings/land/tenant improvements	1-20
Infrastructure	5-20
Equipment	3-10
Office equipment	3-5
Construction in progress	N/A
Assets held for sale	N/A

Maintenance and repairs are charged to expense when incurred while betterments and additions are capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the Agency's accounts and any gain or loss is recognized.

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Assets Held for Sale

Certain properties are redeveloped with the intent to ultimately sell the asset to a third-party. When such assets are substantially complete and ready for sale, the capitalized investment is reclassified to assets held for sale. Assets held for sale are recorded at the lower of cost or fair value.

Capital Asset Impairments

The Agency assesses the carrying value of property whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with GAAP. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used are measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage are measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. The Agency did not record any impairment charges as of June 30, 2023 as there were no indicators of impairment.

Accounts Payable and Accrued Expenses

The Agency accrues expenses on a monthly basis based on current contracts and invoices. The Agency accrues amounts for compensated absences as earned up to certain limitations which represent vacation amounts payable to employees upon termination of employment. The amount accrued for compensated absences as of June 30, 2023 was \$635,197.

Other Liabilities

Other liabilities consists of unearned revenues received from the Commonwealth for future grants or project expenses, deferred gains on property sales, unearned insurance premiums and miscellaneous liabilities.

Bonds Payable and Advances From the Commonwealth of Massachusetts

Bonds and advances are recorded at date of issuance, net of related premium or discount amounts. Premiums and discounts are amortized or accreted, respectively, over the term of the related bond or advance, and these amounts are recorded as a component of non-operating expense.

Revenue Recognition

Application and processing fees for both conduit tax-exempt and taxable bonds are recorded as bond issuance fee revenue on the date of closing on the bond. Debt servicing fees are recorded as revenue upon receipt. These are fees that are collected for Agency assistance in bond closings for conduit debt issued.

Management fee income for the New Markets Tax Credit (NMTC) programs is recorded as services related to managing the operations of the NMTC programs are performed.

Lease income and interest income on leased assets are recognized over the life of the respective lease.

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Guarantee fees received for loans guaranteed by the Agency are reported as unearned and recognized ratably over the term of the guarantee agreement. Guarantee fees are included in the statements of revenues, expenses and changes in net position operating revenues as interest and other loan income.

Capital grant revenue is recognized depending on the terms of the related grant. Charter school grant revenue is recognized as charter school loan guarantees are issued. All other grant revenue is recognized as funds are disbursed for the related project.

Contributions from the Commonwealth are recognized according to the terms of the related agreement. Most are reimbursement type grants and are recognized as qualifying expenses are incurred.

Devens operating revenue mainly consists of fees received for utilities and municipal services and are recognized as earned.

The Agency accrues monthly principal and interest reimbursements due under its contract with the Commonwealth for debt service payments associated with the Department of Environmental Protection (DEP) loan and records these amounts as contract assistance which is included in non-operating revenue.

Generally, gains on sales of real estate are recognized as earned. Certain purchase and sale agreements include a repurchase clause; therefore, these gains on sales are not recognized until the conditions in the repurchase clauses are satisfied.

Provision for Loan Loss

Provision for loan loss represents the necessary expense to maintain an adequate allowance for estimated loan losses. In determining the provision, the Agency evaluates each loan and considers past performance history, collateral value, financial stability of the borrower and the likelihood for foreclosure and such other factors as deemed necessary. The loan portfolio and the Agency's loan loss rating system are evaluated annually by management and an independent consulting firm.

Provision for Predevelopment and Brownfield Receivables, net

Provision for Predevelopment and Brownfield receivables, net, represents the expense necessary to maintain an adequate allowance for estimated losses of receivables that may become uncollectible.

Subsequent Events

Management has evaluated subsequent events through **XXXXXXX**, the date of the financial statements were available for issuance, noting no additional material events to disclose other than the items noted below.

On October 3, 2023, the Agency issued the Devens Public Safety Facility Bonds totaling \$15,000,000. The bond proceeds will be used to finance the construction of a public safety facility in Devens, MA. The interest rate on the bond is 5.04% and the maturity date is May 1, 2038.

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New Accounting Pronouncements

Accounting Standards Effective in Current Year

During 2023, the Agency adopted GASB No. 91, *Conduit Debt Obligations*. The objective of this standard is to provide a single method of reporting conduit debt obligations by issuers. This standard became effective for reporting periods beginning after December 15, 2021. The adoption of this standard did not have a significant effect on the Agency's financial statements.

During 2023, the Agency adopted GASB No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this standard is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This standard became effective for fiscal years beginning after June 15, 2022. The adoption of this standard did not have a significant effect on the Agency's financial statements.

During 2023, the Agency adopted GASB No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this standard is to improve guidance on accounting and financial reporting for subscription-based information technology arrangements. This standard became effective for fiscal years beginning after June 15, 2022. The Agency restated its 2023 beginning balances to reflect the requirements of GASB No. 96 as of July 1, 2022. The adoption of GASB No. 96 increased right to use subscription assets, net, interest payable, subscription liability and net position by \$275,624, \$1,791, \$252,479 and \$21,354, respectively, as of June 30, 2022. Please also refer to Note 11.

New Accounting Standards Not Yet Effective

In April 2022, the GASB issued GASB No. 99, *Omnibus 2022*. The objective of this standard is to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature. There are varying effective dates based on the applicable requirements in the related GASB with the remaining provisions effective for fiscal years beginning after June 15, 2023. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency's financial statements.

In June 2022, the GASB issued GASB No. 100, *Accounting Changes and Error Corrections-an amendment of GASB No. 62*. The objective of this standard is to enhance accounting and financial reporting for accounting changes and error corrections. This standard is effective for fiscal years beginning after June 15, 2023. Earlier application is encouraged. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency's financial statements.

In June 2022, the GASB issued GASB No. 101, *Compensated Absences*. The objective of this standard is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This standard is effective for fiscal years beginning after December 15, 2023. Earlier application is encouraged. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency's financial statements.

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3. Programs of the Agency

The following describes certain programs or divisions of the Agency. Please also refer to the Other Information on page 69.

General Operations Program

The General Operations Program supports five major programs of the Agency: direct lending, investment banking, development/redevelopment of properties, consulting/technical assistance to communities and support of the defense sector in the Commonwealth. The Agency's lending programs consist of business loans, real estate mortgages, equipment loans and development loans. Lending programs generate fee income at closings and interest income. Investment banking acts as a conduit issuer for tax-exempt and taxable bond financing for a variety of borrowers. Investment banking generates fee income from bond issuances.

The Agency invests funds in real estate developments in support of the development/redevelopment of blighted and/or surplus public properties within the Commonwealth. The Agency is actively involved in the development and/or ongoing operations of such properties in Devens, Northampton, Belchertown and Taunton, Massachusetts, and certain Massachusetts state piers. The Agency provides technical assistance to communities through various programs, including loans and consulting services. The Agency also devotes staff time toward defense sector work. Current defense sector projects include economic analysis of the importance of the Commonwealth's military installations and work on the Commonwealth's Military Asset and Security Strategy Task Force. Total Agency assets at risk due to outstanding General Operations guarantees, including unfunded commitments, aggregated approximately \$5.2 million at June 30, 2023.

The net position of the General Operations Program was approximately \$155.2 million as of June 30, 2023.

Devens Operations Program

The Devens Operations Program was established under Chapter 498 of the Acts of 1993, as amended (with respect to the redevelopment of Devens, a former federal military base). With financial support from the Commonwealth, the Agency purchased the property and has been redeveloping Devens, a 4,400-acre mixed-use community located in Devens, MA, by creating a sustainable and diverse residential and business community. The Agency currently provides municipal services, education, environmental protection, redevelopment and property leasing services at Devens. The net position of the Devens Operations Program was approximately \$59.8 million as of June 30, 2023.

Brownfield Redevelopment Program

Brownfield was established in 1998 as part of the Commonwealth's Brownfield Act to encourage reuse of environmentally contaminated property in economically distressed areas of the Commonwealth. This program is administered by the Agency and all cash balances related to this program must be invested according to an established Agency investment policy related to restricted funds. All related interest income must be utilized for the administration of the program. The Agency had approximately \$1.4 million of gross Brownfield loans receivable with loan loss reserves of approximately \$0.3 million for net Brownfield loans receivable of

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approximately \$1.1 million outstanding as of June 30, 2023. The Agency also issued approximately \$3.3 million of grant awards during fiscal year 2023. As of June 30, 2023, approximately \$10.1 million was available for disbursement. The restricted net position of this program was approximately \$8.9 million as of June 30, 2023.

Emerging Technology Program

The ETP was established under Sections 27 and 28 of MGL Chapter 23G. ETP leverages private financing to provide capital for businesses, which develop or commercialize emerging technologies. The Agency had approximately \$8.9 million of gross ETP loans receivable with loan loss reserves of approximately \$3.4 million for net ETP loans receivable of approximately \$5.5 million outstanding as of June 30, 2023.

As of June 30, 2023, the Agency had approximately \$32.7 million available for disbursement. The restricted net position of this program was approximately \$49.3 million as of June 30, 2023.

Total Agency assets at risk due to outstanding ETP guarantees, including unfunded commitments, aggregated approximately \$1.8 million at June 30, 2023.

The Agency has also committed an additional \$10.0 million to equity investments in the Commonwealth Fund III LLC (Fund III) and Commonwealth Fund IV LLC (Fund IV) from the ETP. As of June 30, 2023, a total of \$4.3 million had been contributed to Fund III and \$1.6 million to Fund IV.

Cultural Facilities Program

The Cultural Facilities Program was established under Section 42 of the MGL Chapter 23G, effective July 13, 2006. The purpose of the Cultural Facilities Program is to make grants or loans for the acquisition, design, construction, repair, renovation, rehabilitation or other capital improvement or deferred maintenance of a cultural facility. All related interest income must be utilized for the administration of the program. New funds are given to the Agency on a reimbursement basis as grants are awarded. The Agency awarded approximately \$9.6 million of grant awards during fiscal year 2023. As of June 30, 2023 approximately \$6.3 million is on hand and available for disbursement. The Agency has \$1.0 million due from the Commonwealth at June 30, 2023 for grant and administrative expense reimbursement for the fiscal year. The restricted net position of this program was approximately \$3.2 million as of June 30, 2023.

Massachusetts Export Development Program

This program serves as a guarantee to lending institutions for their working capital loans to Massachusetts exporters. These funds are administered by the Agency and must be invested in securities issued by the Treasury of the United States Government or the Commonwealth. All related investment income must be utilized for the administration of this program. The Agency had designated approximately \$3.4 million at June 30, 2023 for this program. Total Agency assets at risk due to Massachusetts Export Development Program guarantees outstanding, including commitments, aggregated approximately \$3.1 million at June 30, 2023. The restricted net position of this program was approximately \$2.9 million as of June 30, 2023. This program is included in the Other column in the other information on page 69.

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Mortgage Insurance Program

The purpose of the MIP is to encourage private sector investment by guaranteeing a portion of bank loans or bond issues. Premium income received and other monies made available to the program are credited thereto. This premium income is amortized over the loan guarantee period. The approved leverage policy for this program is 1) for loans secured by first liens on real estate or equipment three times the cash balance in the program backing such guarantees and 2) for loans secured by second liens on capital assets or first liens on other business assets, no more than one and a half times the cash balance in the program backing such guarantees. The Agency had designated approximately \$13.8 million at June 30, 2023 for the MIP which are considered restricted funds.

Total Agency assets at risk due to mortgage insurance in force, including commitments, under the Guaranteed Loan Program, aggregated approximately \$9.9 million at June 30, 2023. The restricted net position of this program was approximately \$13.4 million as of June 30, 2023. This program is included in the Other column in the other information on page 69.

Credit Enhancement of Charter School Facilities Program (Charter School Fund)

The Charter School Fund program has a total capitalization of \$75,025,000 derived from six grant awards from the U.S. Department of Education (U.S. DOE), matching private guarantees from Local Initiatives Support Corporation and matching guarantees from the Agency's General Fund Program.

During fiscal year 2005, the Agency was awarded \$10,025,000 from the U.S. DOE to enable the Agency to facilitate the financing of charter schools through the issuance of loan guarantees. The first tier of the 2005 funding includes the \$10,025,000 from the U.S. DOE and a \$500,000 matching guarantee provided by the Agency's General Fund Program. The second tier of the 2005 funding included a \$2,000,000 guarantee from Local Initiatives Support Corporation and a \$500,000 guarantee from the Agency's General Fund.

During fiscal year 2014, the Agency was awarded another \$5,000,000 towards this program by the U.S. DOE and the Agency's General Fund Program may provide up to \$5,000,000 of match funding for guarantees. During fiscal years 2015 and 2016, the Agency was awarded another \$3,900,000 and \$1,100,000, respectively, under one grant, and the Agency's General Fund Program may provide up to \$5,000,000 of match funding for guarantees.

During fiscal year 2018, the Agency was awarded another \$8,000,000 towards this program by the U.S. DOE and the Agency's General Fund Program may provide up to \$8,000,000 of match funding for guarantees. During fiscal year 2020, the Agency was awarded another \$5,000,000 towards this program by the U.S. DOE. Additionally, second tier support of \$5,000,000 was provided in fiscal 2021 and includes support from the Agency's General Fund Program providing up to \$2,500,000 of matching funds and Local Initiatives Support Corporation providing a \$2,500,000 guarantee. In fiscal year 2021, the Agency was awarded another \$8,000,000 towards this program by the U.S. DOE and the Agency's General Fund Program may provide up to \$8,000,000 of matching funds for guarantees.

As of June 30, 2023 approximately \$36.2 million are available for loan guarantees. Total Agency assets at risk due to outstanding guarantees, including commitments, aggregated approximately

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\$29.7 million at June 30, 2023. The restricted net position of this program was approximately \$35.5 million as of June 30, 2023.

Devens Electric Utility Division

In February 2001, the Agency issued Electrical System Revenue Bonds, Series 2001 (Series 2001 Bonds) for the purpose of financing the design, construction, installation and associated costs of the electrical system at Devens, as part of its Devens operations. As required by Section 609 of the Master Trust Indenture by and between the Agency and the Trustee, the Agency accounts for all related revenues and expenditures associated with the electric utilities at Devens as a separate division within the Agency. Net position of the Devens Electric Utility Division was approximately \$15.7 million as of June 30, 2023. See Note 18 Segment Reporting.

Devens Gas, Water and Wastewater Utility Divisions

Devens also provides natural gas, water and sewer services to the residents and businesses of Devens, MA, as part of its Devens operations. The utility divisions pursue programs aimed at increasing energy supply, reliability and efficiency while limiting costs. The Agency tracks each utility division as a separate and distinct program. The net position of these utility divisions was approximately \$31.4 million as of June 30, 2023.

Military Bond Bill Capital Projects Program

MBB was established pursuant to MGL Chapter 6, Section 216. The purpose of this program is to establish a military asset and security task force and provides that the Agency oversee and implement military installations mission improvement and expansion projects or base realignment preparation and mitigation projects, including the acquisition, management and disposition of all or any portion of military installations, buildings and utility systems, equipment and personal property, as well as, acquire title to land, buildings and improvements that comprise all or any portion of military installations upon the transfer or disposition of any portion of the military installations by the federal government. During fiscal year 2023, MBB awarded grants totaling \$301,000. The restricted net position of this program was \$0 as of June 30, 2023. The MBB is included in the Other column in the other information on page 69.

Transformative Development Initiative Program

TDI was established pursuant to MGL Chapter 287, acts of 2014. The purpose of this program is to redevelop Gateway cities to enhance local public-private engagement and community identity; stimulate an improved quality of life for residents and spur increased investment and economic activity. As of June 30, 2023, approximately \$26.4 million was available for disbursement. During fiscal year 2023, TDI awarded grants totaling \$5.2 million and had \$1.2 million worth of direct project expenses. The net position of this program was approximately \$20.3 million as of June 30, 2023.

Transportation Infrastructure Enhancement Trust Program (TNC)

TNC was established pursuant to MGL Chapter 187, acts of 2016. The purpose of this program is to provide financial assistance to small businesses operating in the taxicab, livery or hackney industries to promote the adoption of new technologies and support workforce development. As of June 30, 2023, approximately \$2.2 million was available for disbursement. During fiscal year 2023, TNC awarded grants totaling \$5.6 million and had \$0.0 million worth of direct project

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expenses. The net position of this program was approximately \$0.4 million as of June 30, 2023. TNC is included in the Other column in the other information on page 69.

Innovation Voucher Program

The Innovation Voucher Program was established pursuant to MGL Chapter 75, acts of 2017. The purpose of this program is to provide a voucher program to small corporations and start-up companies for sharing the use of core facilities at the University of Massachusetts. As of June 30, 2023, approximately \$1.9 million was available for disbursement. During fiscal year 2023, Innovation Voucher awarded grants totaling \$2.0 million. The net position of this program was approximately \$0.2 million as of June 30, 2023. Innovation Voucher is included in the other column in the other information on page 67.

Community Innovation Infrastructure Program (CIIP)

The CIIP was implemented through a collaboration between the Agency and the Executive Office of Housing and Economic Development to support the fit-out and feasibility work needed to grow collaborative workspaces. As of June 30, 2023, approximately \$0.3 million was available for disbursement. During fiscal year 2023, CIIP awarded grants totaling \$0.7 million. The net deficit of this program was approximately \$0.2 million as of June 30, 2023. CIIP is included in the Other column in the other information on page 69.

Site Readiness Program

The Site Readiness Program aims to increase the Commonwealth's inventory of large, well-located, project ready sites; to accelerate private-sector investment in industrial and commercial projects; and to support the conversion of abandoned sites and obsolete facilities into clean, actively used, tax-generating properties. As of June 30, 2023, approximately \$7.7 million was available for disbursement. During fiscal year 2023, the Site Readiness Program awarded grants totaling \$0.7 million and had \$3.7 million worth of direct project expenses. The net position of this program was approximately \$5.0 million as of June 30, 2023.

Underutilized Properties Program (UPP)

The 2021 Economic Development Bill authorized \$40.0 million for the UPP to be administered by the Agency for the purpose of funding projects that will improve, rehabilitate or redevelop blighted, abandoned, vacant or underutilized properties to achieve the public purposes of eliminating blight, increasing housing production, supporting economic development projects, increasing the number of commercial buildings accessible to persons with disabilities. The program focuses on funding capital improvements and code compliance projects, along with the design of these improvements. As of June 30, 2023, approximately \$13.9 million was available for disbursement. During fiscal year 2023, the UPP awarded grants totaling \$9.0 million. The net position of this program was approximately \$0.6 million as of June 30, 2023. UPP is included in the Other column in the other information on page 69.

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CARES Act Revolving Loan Program

In 2021, the Agency was awarded \$3,043,469 from the U.S. Department of Commerce's Economic Development Administration to help alleviate severe economic dislocation caused by the coronavirus pandemic. The program was capitalized with \$2,850,000 and \$193,469 to defray the cost of administering the program. As of June 30, 2023, approximately \$0.7 million was available for disbursement. The Agency had approximately \$2.3 million of gross loans receivable with loan loss reserves of approximately \$0.4 million for net loans receivable of approximately \$1.9 million outstanding as of June 30, 2023. The net position of this program was approximately \$2.6 million as of June 30, 2023.

State Small Business Credit Initiative Program (SSBCIP)

The SSBCIP was implemented through a collaboration between the Agency and the Executive Office of Housing and Economic Development to support business investment with a particular focus on socially or economically disadvantaged individuals. SSBCIP loans and guarantees can offer extremely flexible terms where necessary to make projects happen. All SSBCIP projects must also have a loan from a private lender with exposure equal to or greater than the amount provided by SSBCIP. During fiscal year 2023, the program was capitalized with \$14,250,000 and \$750,000 to defray the cost of administering the program. As of June 30, 2023, approximately \$15.1 million was available for disbursement. The Agency had approximately \$159,175 of gross loans receivable with loan loss reserves of \$9,551 for net loans receivable of \$149,625 outstanding as of June 30, 2023. Total Agency assets at risk due to SSBCIP guarantees outstanding, including commitments, aggregated approximately \$1.9 million at June 30, 2023. The net position of this program was approximately \$9.1 million as of June 30, 2023.

Bond Issuance Program

The Bond Issuance Program allows the Agency to offer debt financing by acting as a conduit bond issuer, usually on a tax-exempt basis, for diverse types of borrowers including but not limited to colleges, hospitals and other non-profits, affordable rental housing developments, manufacturing companies, solid waste disposal facilities and public infrastructure. The Agency's conduit bonds are purchased by banks or other types of investors. Principal and interest on the conduit bonds are payable from funds received from the underlying borrowers. Bonds may or may not carry private credit enhancement and are not obligations of the Agency, although in some cases a separate loan guarantee may have been provided by the Agency to a bank purchaser from one of the Agency's Loan Guarantee programs. The Agency has no commitments related to the bond issuance program once the bonds close.

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4. Cash, Cash Equivalents and Investments

The following summarizes the cash and cash equivalents of the Agency and identifies certain types of investment risk as defined by GASB No. 40, *Deposit and Investment Risk Disclosures* at June 30, 2023 (excluding fiduciary funds):

	Carrying Amount
Cash deposits	<u>\$ 204,531,327</u>

General Operations Program’s allowable investments include: U.S. Treasuries, U.S. government agency issues, bank certificates of deposit or time deposits, banker’s acceptance, short-term corporate obligations, repurchase agreements, asset backed securities, and money market funds. The maximum maturity of any investment is five years with the exception of floating rate notes, with 10% of the portfolio always being available in one day.

Restricted Operations Program’s allowable investments include: bonds, notes and similar debt instruments issued by corporations, trusts, partnerships and limited liability companies; commercial paper; U.S. time deposits, certificates of deposit and banker’s acceptances; fixed, variable and indexed rate notes; repurchase agreements and securities issued by companies, trusts and other entities registered under the 1940 Act or exempt from the 1940 Act under Section 3(c). The maximum allowable dollar-weighted average maturity is 90 days. The maximum maturity of any investment is 397 days, with 10% of the portfolio always being available in one day.

Depository Accounts

Insured	\$ 46,659,330
Uninsured	<u>14,450,597</u>
	<u>\$ 61,109,927</u>

At June 30, 2023, investments of approximately \$75.7 million were designated for purposes such as specific loan, guarantee or grant programs and are included in investments in the statement of net position.

At June 30, 2023, current investments included approximately \$79.5 million of restricted investments. Noncurrent restricted investments were approximately \$8.4 million as of June 30, 2023.

The Agency invests some of its funds in the STAR Fund. The STAR Fund is designed to comply with all Massachusetts statutes and regulations for the allowable investment of funds by the Agency. The Agency’s STAR Fund holdings as of June 30, 2023 were approximately \$143.4 million.

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The Agency categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GAAP). The hierarchy is based on the valuation input 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 which include quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; or using other inputs such as interest rate and yield curves at commonly quoted intervals, implied volatilities and credit spreads or market-corroborated inputs,
- Level 3 inputs are significant unobservable inputs.

As of June 30, 2023, the Agency's investments by maturity are summarized as follows:

Investment Type	Level and Investment Maturities (in years)				Level Inputs (1, 2, 3)
	Fair Value	Less Than 1	1 to 5 *	More Than 5	
U.S. Treasury bonds	\$ 16,395,391	\$ 8,112,321	\$ 8,283,070	\$ -	1
Federal agency bonds/notes	15,066,408	15,066,408	-	-	2
Commercial paper	10,387,178	10,244,805	142,373	-	2
Certificates of deposit	5,780,181	5,780,181	-	-	2
Asset backed securities	6,508,967	62,189	6,446,778	-	2
U.S. Bank First American money market fund	51,570,371	51,570,371	-	-	2
Guaranteed investment contracts	291,485	-	-	291,485	N/A
Stock warrants	776,000	-	-	776,000	3
Common stock	2,681,142	-	-	2,681,142	3
	<u>\$ 109,457,123</u>	<u>\$ 90,836,275</u>	<u>\$ 14,872,221</u>	<u>\$ 3,748,627</u>	

* This rating category includes a structured investment vehicle in commercial paper. This investment has been adjusted to reflect fair market value.

The Devens Electric Utility Division's investments include GIC's with multiple providers who maintain the contributed investments. These GIC's are credited with earnings on the underlying investments and charged for withdrawals and expenses. The providers are contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Devens Electric Utility Division. The contract value represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses. In accordance with GASB No. 72, *Fair Value Measurement and Application*, these investments are measured at contract value which falls outside of the fair value hierarchy.

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As of June 30, 2023, the Agency's investments by quality rating (S&P or Moody's) are summarized as follows:

Investment Type	Fair Value	Quality Ratings			Unrated *
		AAA	AA	A	
U.S. Treasury bonds	\$ 16,395,391	\$ -	\$ 16,395,391	\$ -	\$ -
Federal agency bonds/notes	15,066,408	-	10,045,246	5,021,162	-
Commercial paper	10,387,178	-	-	10,244,805	142,373
Certificates of deposit	5,780,181	-	-	5,780,181	-
Asset backed securities	6,508,967	6,508,967	-	-	-
U.S. Bank First American money market fund	51,570,371	51,570,371	-	-	-
Guaranteed investment contracts	291,485	-	-	291,485	-
Stock warrants	776,000	-	-	-	776,000
Common stock	2,681,142	-	-	-	2,681,142
	<u>\$ 109,457,123</u>	<u>\$ 58,079,338</u>	<u>\$ 26,440,637</u>	<u>\$ 21,337,633</u>	<u>\$ 3,599,515</u>

* This rating category includes a structured investment vehicle in commercial paper. This investment has been adjusted to reflect fair market value.

The Agency has loan agreements within the ETP. The ETP is a loan program designed to promote economic development in the emerging technologies sector of the Massachusetts economy. These loans are generally issued to companies that are otherwise unable to obtain market-based financing. The majority of these companies are pre-revenue start-up operations which are being incubated through the ETP to promote economic development in the Commonwealth. Certain loan agreements include warrants that qualify as reportable derivative instruments under GASB No. 53. The value of these warrants is ultimately dependent upon the fair value of the companies which have issued the warrants. The objective of including a warrant in the loan agreement is for the ETP to share in any success the company may achieve if there is an initial public offering or sale of the company. Any successful warrant exercised essentially serves as a yield enhancement to the ETP and any proceeds are deposited back into the ETP.

The Agency has developed a reliable estimate of the fair value of the related warrants using a comparable company analysis and last round of financing approach or Black-Scholes method. Privately held warrant and equity-related securities are valued based on an analysis of various factors including, but not limited to: 1) the related company's operating performance and financial condition, 2) general economic and industry trends, 3) the company's latest round of financing, 4) price to enterprise value or price to equity ratios, and discounted cash flow, and 5) valuation comparisons to comparable public companies or other industry benchmarks. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the valuation of the warrant and equity-related securities. The Agency periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the value of the portfolio company may have increased or decreased since the last valuation measurement date.

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As of June 30, 2023, the Agency had the following derivative instruments outstanding which are included in noncurrent investments:

Type	Effective Date	Maturity Date	Terms	Valuation Technique	Fair Value
Series B Warrants	6/30/2017	6/30/2027	35,616 shares with exercise price of \$3.65	Market Comparable Method	\$ 140,000
Series Seed Warrants	6/30/2020	6/30/2030	391,461 shares with exercise price of \$0.374	Contingent Claims Analysis	-
Class D Warrants	4/8/2021	4/8/2031	10,227 shares with exercise price of \$11.00	Comparable Company Analysis	-
Series Seed Warrants	12/5/2019	12/5/2029	56,471 shares with exercise price of \$0.85	Comparable Company Analysis	1,500
Series Seed Warrants	3/2/2023	3/2/2033	1,283,333 shares with exercise price of \$0.068	Contingent Claims Analysis	15,000
Series B-1 Warrants	2/1/2019	2/1/2029	19,930 shares with exercise price of \$0.81	Contingent Claims Analysis	494,000
Series A-2 Warrants	5/31/2019	5/31/2029	681,368 shares with exercise price of \$0.30	Comparable Company Analysis & Last Round of Financing Analysis	23,000
Series AD-1 Warrants	3/18/2021	4/9/2031	85,607 shares with exercise price of \$0.8761	Market Comparable Method	4,500
Series A-1 Warrants	2/22/2017	2/22/2027	128,458 shares with exercise price of \$1.265	Comparable Company Analysis	6,000
Class A Warrants	8/30/2019	8/30/2029	106,250 shares with exercise price of \$0.80	Black-Scholes	40,000
Series A3 Warrants	5/11/2018	5/11/2028	32,420 shares with exercise price of \$3.47	Comparable Company Analysis & Last Round of Financing Analysis	31,000
Class A Warrants	3/20/2020	3/20/2030	57,692 shares with exercise price of \$1.30	Black-Scholes	2,000
Series Seed Warrants	8/18/2014	8/18/2024	93,333 shares with exercise price of \$0.45	Market Comparable Method	-
Series B Warrants	7/1/2021	6/15/2026	240,000 shares with exercise price of \$0.70	Market Comparable Method	19,000
				Total	\$ 776,000

Custodial Credit Risk-Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Agency's deposits may not be recovered. The Agency's policy is to only invest with reputable financial institutions.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency manages its exposure to interest rate risk by investing operating funds primarily in short-term investments.

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Additionally, the STAR Fund maintains a dollar-weighted average maturity of not greater than 90 days; requires that any investment securities purchased by the STAR Fund have remaining maturities of 397 days or less at the time of purchase (except for variable rate notes issued by the United States government or its agencies or instrumentalities, which must have remaining maturities of 762 days or less); and limits the remaining maturity of any commercial paper purchased by the STAR Fund to 270 days or less.

Credit Risk

Credit risk is the risk that the Agency’s investments will be negatively impacted due to the default of the Agency’s investments. According to the Agency’s investment policy, investments must be prime quality and rated no less than A by either Moody’s, Standard & Poor’s, or Fitch.

Concentration of Credit Risk

Concentration of credit risk is assumed to arise when the amount of cash and investments that the Agency has with any one issuer exceeds 5% of the total value of the Agency’s investments. As of June 30, 2023, there no cash, cash equivalents and investments held in any one issuer over 5% of the total value of the Agency’s investments.

Foreign Currency Risk

The investment policy of the Agency limits the Agency’s foreign currency risk by excluding foreign investments as an investment option.

Trust Investment Risks

As outlined in the Trust’s investment policy, the main objective of the Trust is to achieve long-term growth of assets by maximizing long-term rate of return on investments and minimizing risk of loss to fulfill the Trust’s current and long-term spending policies.

As of June 30, 2023, the Trust’s investments by maturity are summarized as follows:

Level and Investment Maturities (in years)

Investment Type	Level and Investment Maturities (in years)				Level Inputs (1, 2, 3)
	Fair Value	Less Than 1	1 to 5	More Than 5	
Exchange traded fund-bond	\$ 697,953	\$ -	\$ -	\$ 697,953	2
Exchange traded fund-equity	4,506,828	-	-	4,506,828	N/A
Mutual fund-bond	2,731,745	-	-	2,731,745	2
U.S. Bank First American money market fund	64,577	-	-	64,577	2
	<u>\$ 8,001,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,001,103</u>	

In addition, the Agency's mutual fund equity investments totaling \$855,627 are level 2.

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As of June 30, 2023, the Agency's investments by quality rating are summarized as follows:

Investment Type	Quality Ratings		
	<u>Fair Value</u>	<u>AAA</u>	<u>Unrated</u>
Exchange traded fund-bond	\$ 697,953	\$ -	\$ 697,953
Exchange traded fund-equity	4,506,828	-	4,506,828
Mutual fund-bond	2,731,745	-	2,731,745
Mutual fund-equity	855,627	-	855,627
U.S. Bank First American money market fund	64,577	64,577	-
	<u>\$ 8,856,730</u>	<u>\$ 64,577</u>	<u>\$ 8,792,153</u>

Custodial Credit Risk-Deposits

The Trust's policy is to only invest with reputable financial institutions.

Interest Rate and Credit Risk

The Trust manages its exposure to interest rate and credit risk by diversifying investments in order to minimize the impact of large losses from individual investments. The portfolio is constructed and maintained to provide diversification with regard to the concentration of holding in individual issues, issuers, countries, governments or industries.

Concentration of Credit Risk

Concentration of credit risk is assumed to arise when the amount of cash and investments that the Trust has with any one issuer exceeds 5% of the total value of the Trust's investments. As of June 30, 2023, the cash, cash equivalents and investments held in any one issuer over 5% of the total value of the Trust's investments included \$3.9 million (44%) and \$0.5 million (6%) invested in an exchange traded fund-equities and exchange traded fund-bonds.

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STAR Fund Investment Risks

The following are risk disclosures of the STAR Fund as of December 31, 2022:

Credit Risk

The STAR Fund's investment policies, as outlined in its Information Statement, limit the STAR Fund's investments to those which investors in the STAR Fund can invest under the laws of the Commonwealth. As of December 31, 2022, the STAR Fund was comprised of investments which were, in aggregate, rated by Standard & Poor's (S&P) as follows:

S&P Rating	%
AAAm	5.15%
AA+	12.09%
A-1+	24.23%
A-1	40.66%
A	2.06%
Exempt ⁽¹⁾	15.81%

⁽¹⁾ Represents investments in U.S. Treasury securities, or repurchase agreements collateralized by U.S. Treasury securities, which are not considered to be exposed to overall credit risk per GASB.

The ratings in the preceding chart include the ratings of collateral underlying repurchase agreements in effect as of December 31, 2022. Securities with a long-term rating of A or higher are equivalent to the highest short-term rating category based on S&P rating methodology.

Concentration of Credit Risk

As outlined in the STAR Fund's Information Statement, the STAR Fund's investment policy establishes certain restrictions on investments and limitations on portfolio composition. At December 31, 2022, the STAR Fund's portfolio included the following issuers, aggregated by affiliated issuers where applicable, which individually represented greater than 5% of the STAR Fund's total investment portfolio:

Issuer	%
BNP Paribas ⁽¹⁾	13.89%
BofA Securities Inc. ⁽¹⁾	10.55%
Federal Home Bank Notes	5.25%

⁽¹⁾ This issuer is also counterparty to a repurchase agreement entered into by the Fund. These repurchase agreements are collateralized by U.S. Government Agency and/or U.S. Treasury obligations.

Interest Rate Risk

The STAR Fund's investment policy limits its exposure to market value fluctuations due to changes in interest rates by requiring that: (1) it maintain a dollar-weighted average maturity of not greater than 60 days; (2) requiring that any investment securities purchased by the STAR Fund have remaining maturities of 397 days or less at the time of purchase (except for variable rate notes issued by the United States government or its agencies or instrumentalities, which must have remaining maturities of 762 days or less) and (3) limiting the remaining maturity of any commercial paper purchased by the STAR Fund to 270 days or less. At December 31, 2022,

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the weighted average maturity of the STAR Fund, including cash and cash equivalents and certificates of deposit, was 30 days.

The range of yields to maturity, actual maturity dates, principal values, fair values and weighted average maturities of these types of investments the STAR Fund held at December 31, 2022 are as follows:

Type of Deposits and Investments	Yield-to Maturity Range	Maturity Range	Fair Value	Weighted Average Maturity
Asset-Backed Commercial Paper	3.91%-5.18%	1/9/23-6/29/23	\$ 5,136,036	57 days
Certificates of Deposit-Negotiable	2.67%-5.33%	1/3/23-10/2/23	13,178,765	32 days
Commercial Paper	4.44%-5.43%	1/3/23-9/5/23	14,552,463	46 days
Corporate Notes	4.75%	3/1/23-9/28/23	1,137,734	39 days
Government Agency and Instrumentality Obligations:				
Agency Notes	4.33%	2/15/23	2,895,781	46 days
U.S. Treasury Notes	4.62%	1/15/23	2,191,444	15 days
Money Market Fund	4.14%-4.22%	N/A	2,835,164	7 days
Repurchase Agreements	4.00%-4.30%	1/3/23-2/2/23	13,183,511	5 days
			<u>\$ 55,110,898</u>	

The yields shown in the preceding table represent the yield-to-maturity at original cost except for adjustable rate instruments, for which the rate shown is the coupon rate in effect at December 31, 2022. The weighted average maturities shown in the preceding table are calculated based on the stated maturity dates with the following exceptions: (1) floating or variable rate securities are assumed to have an effective maturity of the date upon which the securities interest rate next resets; (2) the effective maturity of callable securities is assumed to be its stated maturity unless the security had been called as of the reporting date, in which case the effective maturity would be assumed to be its called date; (3) for instruments subject to demand features, the effective maturity is assumed to be the period remaining until the principal amount of the security may be recovered through the demand feature and (4) the effective maturity of money market instruments is assumed to be the date upon which the collection of redemption proceeds is due, typically seven days; and (5) the effective maturity of cash and cash equivalents is assumed to be one day.

5. Other Investments

The Agency has a participating interest in 10 other investments, which are accounted for on the equity method of accounting. With this method, the Agency reports its proportional share of revenue or expense on the statements of revenues, expenses and changes in net position. Upon dissolution of the respective other investment, proceeds will be distributed according to the terms of the related agreements of each respective member.

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The following is a summary of the Agency's other investments balance:

	June 30, 2022	Capital Contributions	Distributions	Share of Operating Income	June 30, 2023
Investment in Commonwealth Fund III	\$ 6,402,103	\$ -	\$ -	\$ (296,890)	\$ 6,105,213
Investment in Commonwealth Fund IV	-	1,560,539	-	(139,640)	1,420,899
Investments in NMTC entities	12,256	-	(2,361)	183	10,078
	<u>\$ 6,414,359</u>	<u>\$ 1,560,539</u>	<u>\$ (2,361)</u>	<u>\$ (436,347)</u>	<u>\$ 7,536,190</u>

The Agency is a 98% member in the Fund III and Fund IV. The managing member is Massachusetts Technology Development Corporation. The primary purpose of the funds are to invest in entities broadly related to the technology industry, such as robotics, instrumentation, telecom, computers, software, healthcare information technology and mobile applications. The Agency has committed \$5.0 million to each fund investment from the ETP. As of June 30, 2023, \$4,279,491 and \$1,560,539 had been contributed to Fund III and Fund IV, respectively.

The Agency has a 0.01% to 0.10% investment allocation in the Investments in NMTC entities. The Agency, via subsidiary entity MDNM was awarded, since the inception of the program, the right to allocate federal NMTC's against \$341.0 million of its investors' investments by the United States Department of the Treasury.

NMTC's have been made available to banks, corporations, partnerships and funds that invest in MDNM. The proceeds of their investments will be reinvested in business and commercial development in low-income census tracts. As of June 30, 2023 the Agency had investments in 8 such entities. See Note 19.

6. Loans Receivable

The following is a summary of the Agency's loans receivable balance:

	June 30, 2022	Disbursements (Provisions, net)	(Collections)/ Write-offs	June 30, 2023
Loans receivable	\$ 115,222,119	\$ 31,829,012	\$ (12,013,756)	\$ 135,037,375
Less: allowance for loan loss	(12,694,141)	(3,839,165)	-	(16,533,306)
	<u>\$ 102,527,978</u>	<u>\$ 27,989,847</u>	<u>\$ (12,013,756)</u>	<u>\$ 118,504,069</u>

Most loans are collateralized by a first or shared first position in the underlying collateral. As of June 30, 2023, 1 loan totaling \$4.0 million was collateralized by a second position in the underlying property. Also, as of June 30, 2023, 4 loans totaling \$0.9 million are collateralized by third and fourth positions. As of June 30, 2023, two loans totaling \$1.0 million were unsecured.

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There were approximately \$1.6 million net loans receivable that were considered nonaccrual loans as of June 30, 2023. All payments received from borrowers for nonaccrual loans are applied to the principal balance of the loan.

7. Interest Receivable

The following is a summary of the Agency's interest receivable balance at June 30, 2023:

Investment interest	\$ 189,277
Loan interest	438,602
Lease interest	10,175
	<u>\$ 638,054</u>

Interest receivable includes amounts earned but not received on both investments, loans and leases, net of an allowance for doubtful accounts. When the Agency believes the collectability of the interest is unlikely, a reserve against interest is charged as a component of the allowance for doubtful accounts. As of June 30, 2023 no allowance was deemed necessary.

8. Predevelopment and Brownfield Receivables

The following is a summary of the Agency's Predevelopment and Brownfield receivables as of June 30, 2023:

	June 30, 2022	Disbursements (Provision, net)	(Collections)/ Write-offs	June 30, 2023
Predevelopment and Brownfield receivables	\$ 9,943,089	\$ 21,492	\$ (118,505)	\$ 9,846,076
Less: accumulated provision	(9,537,181)	18,880	-	(9,518,301)
	<u>\$ 405,908</u>	<u>\$ 40,372</u>	<u>\$ (118,505)</u>	<u>\$ 327,775</u>

Predevelopment and Brownfield receivables represent amounts advanced to organizations for the purpose of conducting market analysis and feasibility studies for expansion of operations.

Advanced funds are recovered in accordance with individual terms as stated in the memoranda of agreement and evaluation of collectability.

In addition to the advances noted above, the Agency awarded approximately \$3.3 million of Predevelopment and Brownfield grant awards during fiscal year 2023 which are included in the statement of revenues, expenses and changes in net position.

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9. Capital Assets

A summary of changes in capital assets for the year ending June 30 is as follows:

	June 30, 2022	Additions/ Transfers	Disposals/ Transfers	June 30, 2023
Capital:				
Land	\$ 6,411,434	\$ -	\$ (1,228)	\$ 6,410,206
Building	31,018,871	705,378	(153,441)	31,570,808
Buildings/land/tenant improvements	4,863,657	109,812	(5,200)	4,968,269
Infrastructure	145,337,629	714,378	(4,400)	146,047,607
Equipment	7,776,970	165,948	(33,217)	7,909,701
Office equipment	4,907,351	291,583	-	5,198,934
Construction in progress	15,178,965	16,192,402	(85,064)	31,286,303
Assets held for sale	15,766,037	2,801,491	(13,337,937)	5,229,591
Subtotal	<u>231,260,914</u>	<u>20,980,992</u>	<u>(13,620,487)</u>	<u>238,621,419</u>
Less: accumulated depreciation				
Building	(26,147,670)	(502,923)	150,430	(26,500,163)
Buildings/land/tenant improvements	(3,903,616)	(382,555)	(11,108)	(4,297,279)
Infrastructure	(95,770,038)	(5,177,646)	-	(100,947,684)
Equipment	(6,123,611)	(477,508)	33,217	(6,567,902)
Office equipment	(4,747,053)	(121,635)	-	(4,868,688)
	<u>(136,691,988)</u>	<u>(6,662,267)</u>	<u>172,539</u>	<u>(143,181,716)</u>
Total	<u>\$ 94,568,926</u>	<u>\$ 14,318,725</u>	<u>\$ (13,447,948)</u>	<u>\$ 95,439,703</u>

Devens

As of June 30, 2023, the Agency had cumulative net costs associated with the development of Devens, including utilities, of approximately \$89.6 million, which are included in capital assets. The related depreciation expense for the year ended June 30, 2023 was approximately \$6.5 million.

The Agency had one lot sale at Devens during fiscal year 2023. The lot sale was deferred and the gain on sale was reported as other liabilities at June 30, 2023 as the conditions in the repurchase clause had not been satisfied by year end. The sale resulted in gross sales proceeds of \$809,710 and net gains of \$723,709.

Springfield

The Agency had purchased a building at 1550 Main Street in Springfield, Massachusetts in September 2009 for a purchase price of \$2.5 million. On November 1, 2022, the Agency sold this building. The sale resulted in gross sales proceeds of \$6,000,000 and a net gain of \$2,206,081.

Taunton

In January 2012, the Agency, in partnership with TDMD, purchased from the Commonwealth the former Dever State School core campus in Taunton. The Agency has cumulative net redevelopment capital on the property of approximately \$1.9 million as of June 30, 2023 which is included in assets held for sale.

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The Agency had one lot sale at Taunton during fiscal year 2023. The sale resulted in gross sales proceeds of \$7,125,000 and a net loss of \$630,839.

Other

The Agency also had purchased property in Worcester, MA and Westfield, MA in prior years. The Agency sold the Worcester, MA property sale during fiscal year 2023 resulting in gross sales proceeds of \$10 and a net loss of \$1,575,357. The Westfield property, which had a carrying value of \$677,893, was granted to the City of Westfield during the fiscal year.

10. Leases

The Agency as a Lessor:

In accordance with GASB No. 87, the Agency recognized a lease receivable and a deferred inflows of resources for leases the Agency deems applicable to GASB No. 87. As a lessor, the Agency leases office, commercial and retail space in Springfield and Devens, Massachusetts under long-term agreements at market rates with terms ranging from 1 to 40 years. Some leases are short-term leases or some leases include provisions for rent changes based on the consumer price index, resulting in additional variable lease revenues that are not included in the measurement of the lease receivables. The lease receivable is measured at incremental borrowing rates ranging from 3.5% to 7.25%. The Springfield building was sold during the fiscal year.

A summary of changes in lease receivable for the year ended June 30 is as follows:

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Termination/ Modification Reductions</u>	<u>Lease Revenue Reductions</u>	<u>June 30, 2023</u>
Devens building	\$ 658,700	\$ 696	\$ (10,554)	\$ (285,248)	\$ 363,594
Springfield building	5,689,694	206,323	(5,559,348)	(336,669)	-
Greenfield building	-	94,643	-	(30,885)	63,758
Devens land	4,298,352	128	(2,045)	(89,673)	4,206,762
	<u>\$ 10,646,746</u>	<u>\$ 301,790</u>	<u>\$ (5,571,947)</u>	<u>\$ (742,475)</u>	<u>\$ 4,634,114</u>

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A summary of changes in deferred inflows of resources for the year ended June 30 is as follows:

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Termination/ Modification Reductions</u>	<u>Lease Revenue Reductions</u>	<u>June 30, 2023</u>
Devens building	\$ 641,885	\$ 695	\$ (10,554)	\$ (271,784)	\$ 360,242
Springfield building	5,467,749	206,323	(5,317,320)	(356,752)	-
Greenfield building	-	94,643	-	(32,442)	62,201
Devens land	4,134,426	128	(2,045)	(166,583)	3,965,926
	<u>\$ 10,244,060</u>	<u>\$ 301,789</u>	<u>\$ (5,329,919)</u>	<u>\$ (827,561)</u>	<u>\$ 4,388,369</u>

Minimum future lease receipts from long-term leases are as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2024	\$ 324,189	\$ 179,042
2025	196,077	167,325
2026	180,413	160,551
2027	147,965	154,049
2028	127,157	149,180
2029-2033	757,141	659,182
2034-2038	810,776	487,771
2039-2043	278,085	390,851
2044-2048	339,402	329,339
2049-2053	414,677	253,824
2054-2058	506,369	161,840
2059-2062	551,863	50,288
	<u>\$ 4,634,114</u>	<u>\$ 3,143,242</u>

The Agency as a Lessee:

Also in accordance with GASB No. 87, the Agency recognized a lease liability and a right to use leased asset, net of amortization, for leases in which the Agency is a lessee and leases equipment or office space under long-term agreements at market rates with terms ranging from 1 to 3 years. Some leases are short-term leases or some leases include provisions for rent changes based on the consumer price index, resulting in additional variable lease revenues that are not included in the measurement of the lease liability. The lease liability is measured at incremental borrowing rates ranging from 3.5% to 8.5%.

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A summary of changes in lease liability for the year ended June 30 is as follows:

	<u>June 30, 2022</u>	<u>Modifications/ Renewals Additions</u>	<u>Payments/ Modifications/ Terminations Reductions</u>	<u>June 30, 2023</u>
Building	\$ 3,668,625	\$ 801,502	\$ (1,370,092)	\$ 3,100,035
Equipment	41,093	168,208	(124,581)	84,720
	<u>\$ 3,709,718</u>	<u>\$ 969,710</u>	<u>\$ (1,494,673)</u>	<u>\$ 3,184,755</u>

Minimum future lease payments from long-term leases are as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2024	\$ 1,471,406	\$ 95,675
2025	1,362,987	40,348
2026	136,228	14,392
2027	133,975	7,196
2028	48,870	2,014
2029	31,289	620
	<u>\$ 3,184,755</u>	<u>\$ 160,245</u>

A summary of changes in leased assets for the year ended June 30 is as follows:

	<u>June 30, 2022</u>	<u>Additions/ (Transfers)</u>	<u>Terminations/ Disposals/ Transfers</u>	<u>June 30, 2023</u>
Leased assets being amortized:				
Building	\$ 5,334,383	\$ 801,496	\$ (1,408)	\$ 6,134,471
Equipment	269,049	169,708	(271,392)	167,365
	<u>5,603,432</u>	<u>971,204</u>	<u>(272,800)</u>	<u>6,301,836</u>
Less accumulated amortization				
Building	(2,385,965)	(1,197,575)	-	(3,583,540)
Equipment	(223,578)	(90,659)	234,281	(79,956)
	<u>(2,609,543)</u>	<u>(1,288,234)</u>	<u>234,281</u>	<u>(3,663,496)</u>
Net leased assets	<u>\$ 2,993,889</u>	<u>\$ (317,030)</u>	<u>\$ (38,519)</u>	<u>\$ 2,638,340</u>

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11. Subscription-Based Information Technology Arrangements

In accordance with GASB No. 96, the Agency recognized a subscription liability and a subscription asset, net, for SBITAs in which the Agency is using a third party software for such things as payroll processing and financial reporting under long-term agreements at market rates with terms ranging from 1 to 6 years. Some agreements are short-term agreements that are not included in the measurement of the lease liability. The subscription liability is measured at incremental borrowing rates ranging from 5.0% to 8.5%.

A summary of changes in subscription liability for the year ended June 30 is as follows:

	<u>As Restated June 30, 2022</u>	<u>Modifications/ Renewals Additions</u>	<u>Payments/ Modifications/ Terminations Reductions</u>	<u>June 30, 2023</u>
SBITAs	\$ 252,479	\$ 409,227	\$ (265,537)	\$ 396,169

Minimum future subscription payments from long-term agreements are as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2024	\$ 170,370	\$ 21,399
2025	115,428	11,727
2026	110,371	2,664
	<u>\$ 396,169</u>	<u>\$ 35,790</u>

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A summary of changes in subscription assets for the year ended June 30 are as follows:

	<u>As Restated June 30, 2022</u>	<u>Additions/ (Transfers)</u>	<u>Terminations/ Disposals/ Transfers</u>	<u>June 30, 2023</u>
SBITA	\$ 395,938	\$ 493,599	\$ -	\$ 889,537
	<u>395,938</u>	<u>493,599</u>	<u>-</u>	<u>889,537</u>
Less accumulated amortization				
SBITA	(134,094)	(211,175)	-	(345,269)
	<u>(134,094)</u>	<u>(211,175)</u>	<u>-</u>	<u>(345,269)</u>
Net SBITA	<u>\$ 261,844</u>	<u>\$ 282,424</u>	<u>\$ -</u>	<u>\$ 544,268</u>

12. Outstanding Loan, Bond Issuance and Other Commitments

Loans

The Agency issued loans aggregating \$31.9 million during fiscal year 2023. The Agency has committed to issuing an additional \$6.3 million of loans as of June 30, 2023.

Bond Issuance Program

The Agency's Bond Issuance Program assisted in the issuance of taxable and tax-exempt bonds and lease transactions on behalf of client institutions through its bond financing program on 51 projects aggregating approximately \$1.9 billion during fiscal year 2023. These debt obligations are conduit transactions and do not constitute a debt or liability of the Agency, therefore, these financing transactions are not included in the accompanying financial statements. The Agency earned bond issuance fee revenues related to these financings of approximately \$8.7 million in fiscal year 2023 and are included as a component of bond issuance and New Markets Tax Credit fees in the statement of revenues, expenses and changes in net position.

Commitments

The Devens Electric Utility Division uses Master Power Supply Agreements and Purchase Power Agreements (PPAs) to procure necessary power supply requirements from time to time as market and load growth conditions dictate. The Devens Electric Utility Division secured 60% of its 2023 power supply requirements using confirmations in place with NextEra, Shell Energy, Macquarie, and BP Energy. 21% was provided by wind, solar and hydro renewables with the balance of 19% being secured through the ISO-NE Day Ahead and Real Time energy market.

Additional confirmation transactions and long term PPAs are in place with a blend of different providers in varying quantities to secure between 48% - 80% of the load requirements from 2024 through 2027. Planning for the future in meeting the Commonwealth's goal of carbon free power by 2050, by 2030 approximately 63% of its future power supply needs qualify as carbon free

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through long-term contracts in place or being negotiated including solar power, a wind powered turbine facility, several hydroelectric providers and one nuclear power provider. The energy supply portfolio is reviewed every quarter with our power supply consultant, Energy New England, to review positions and make additional procurement transactions as needed.

The current renewable power supply portfolio mentioned above consists of a blend of 10 MW's of 3rd party owned photovoltaic projects at Devens, and several offset sources of wind turbine generated power, hydroelectric power and solar power. This represents approximately 21% of the total current power supply needs of the Devens electric utility supplied from renewable resources.

The Agency has concluded that the contracts noted above are not subject to GASB No. 53. The hedging contracts noted above entered into by the Devens Electric Utility Division are considered normal purchases and sales contracts for utilities as part of the ongoing operations of the Devens Electric Utility Division. These activities are subject to the normal use exclusion provided for in GASB No. 53 and are not required to be reported as derivative instruments.

The Devens Electric Utility Division has also entered into an Operation and Maintenance Agreement with the Town of Wellesley, MA for the management and operation of the Electric System. The current agreement expires June 30, 2024. At that time, the contract may be extended for a 5 year term expiring in 2029 and one final 4 year term expiring in 2033.

13. Bonds Payable

Electric System Utility Bond

During fiscal 2001, the Agency issued the Series 2001 Bonds for the Electric System at Devens which totaled approximately \$10.6 million. The Series 2001 Bonds were used to finance the design, construction, installation and associated costs of certain capital improvements to the Electric System at Devens and to fund reserves for future capital upgrades.

In an effort to lower the weighted average interest rate on the bonds, the Agency refunded the bonds in December 2011 and issued Devens Electric System Refunding Revenue Bonds, Series 2011 (Series 2011 Bonds). Principal of \$8,775,000 was repaid in relation to the Series 2001 Bonds and new principal of \$8,145,000 was issued.

In another effort to lower the interest rate on the bonds, the Agency refunded the bonds in September 2021 and issued Devens Electric System Refunding Revenue Bonds, Series 2021 (Series 2021 Bonds). Principal of \$4,855,000 was repaid in relation to the Series 2011 Bonds and new principal of \$4,755,000 was issued.

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The following is a summary of the Agency's bonds payable activity for the year ended June 30:

	Interest Rate at June 30, 2023	June 30, 2022	Additions	Principal Payments/ Amortization	June 30, 2023	Current Portion
Devens Electric System Utility Bond	1.6401%	\$ 4,620,000	\$ -	\$ (485,000)	\$ 4,135,000	\$ 490,000

The Series 2021 Bonds are collateralized by a pledge of the Electric System's revenues and certain funds and accounts established under the bond. Total principal and interest remaining on the bonds is \$4,405,747, payable through June 30, 2031. Total revenues of the Devens Electric Utility System were \$26,820,672 for the current fiscal year.

The bond documents require the maintenance of certain funds. Below are certain funds balances as of June 30, 2023 which are included in restricted cash and cash equivalents on the statements of net position.

- The Revenue Fund had a balance of \$6,227,451 which was included in the current cash and cash equivalents-restricted for use on the statement of net position. All revenues generated by the Electric System, exclusive of interest income, are deposited into the Revenue Fund. Funds are transferred from the Revenue Fund to other funds of the Electric System according to the bond resolution agreement. No funds were transferred during fiscal year 2023.
- The Capital Upgrade Reserve Fund had a balance of \$2,528,481. The Capital Upgrade Reserve Fund may be used to fund capital improvements to the Electric System. If excess funds exist in the Capital Upgrade Reserve Fund, then these excess funds may be used to cover any operating shortfalls. No funds were transferred during fiscal year 2023.
- The Operating/Rate Stabilization Reserve Fund had a balance of \$1,035,600 which was included in the noncurrent cash and cash equivalents-restricted for use on the statement of net position. The Operating/Rate Stabilization Reserve Fund may be used to fund operating expenses of the Electric System when there are not sufficient funds available from operations. No funds were transferred in fiscal year 2023.

Excess balances in the Revenue Fund may be transferred to the Agency, free and clear of the lien of the bond resolution, if all funding requirements are met and the debt service coverage requirement of 1.5 has been met, cumulatively, during the 12 consecutive months prior to the transfer date.

Principal payments are due annually through 2031. Total interest expense related to the bonds was \$71,133 for the year ended June 30, 2023.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default as long as the Agency complies with specific requirements included in the agreement. As of June 30, 2023, the debt service coverage was met.

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Scheduled principal and interest payments on all the bonds payable are shown below.

Fiscal Year	Principal	Interest	Total Debt Service
2024	\$ 490,000	\$ 63,130	\$ 553,130
2025	500,000	54,998	554,998
2026	505,000	46,750	551,750
2027	515,000	38,372	553,372
2028	520,000	29,877	549,877
2029-2031	1,605,000	37,620	1,642,620
	<u>\$ 4,135,000</u>	<u>\$ 270,747</u>	<u>\$ 4,405,747</u>

14. Advances from the Commonwealth

The following is a summary of the Agency's Advances from the Commonwealth as of June 30:

	2022	Additions	Payments/ Amortization	2023	Current Portion
DEP-wastewater	\$ 6,198,069	\$ -	\$ (617,541)	\$ 5,580,528	\$ 638,289
Premium	2,578	-	(1,190)	1,388	
DEP-water	4,855,759	14,974,004	-	19,829,763	
	<u>\$ 11,056,406</u>	<u>\$ 14,974,004</u>	<u>\$ (618,731)</u>	<u>\$ 25,411,679</u>	

In 2001 and 2004, the DEP approved loans to the Agency. In addition, The Massachusetts Water Abatement Trust, currently known as the Massachusetts Clean Water Trust (MCWT), issued loans to the Agency. Collectively, these loans were advanced to construct a wastewater treatment facility at Devens. These loans are being paid back to MCWT through revenues generated from the processing of wastewater at Devens and surrounding communities. These loans are part of a pooled loan program bond within the MCWT. The Agency and the Commonwealth have entered into a contract providing that the Commonwealth shall pay contract assistance on behalf of the Agency with respect to partial debt service on these loans. Repayment of the loans began on February 1, 2002.

The loans mature in August 2024 and February 2031. Principal and interest expense related to these loans was \$617,541 and \$289,266 for the year ended June 30, 2023, respectively. During fiscal year 2022, the Commonwealth paid \$141,816 in principal payments and \$209,601 in interest expense, respectively, which is included in total interest expense.

The MCWT loan agreement requires the maintenance of an adequate annual debt service coverage ratio. As of June 30, 2023, the necessary debt service coverage was met.

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The scheduled principal and interest payments on the MCWT loan at June 30, 2023, are as follows:

Fiscal Year	Principal	Interest	Total Debt Service
2024	\$ 638,289	\$ 140,950	\$ 779,239
2025	659,037	112,164	771,201
2026	663,935	198,187	862,122
2027	684,683	172,951	857,634
2028	709,580	137,330	846,910
2029-2031	2,225,004	185,766	2,410,770
	<u>\$ 5,580,528</u>	<u>\$ 947,348</u>	<u>\$ 6,527,876</u>

In 2022, the DEP approved a zero interest loan to the Agency with a maximum obligation amount of \$27,300,000 to construct two water treatment plants at Devens for iron and manganese removal and PFAS treatment for existing Devens wells. The MCWT issued another loan to the Agency. The loan will be paid back to the trust through revenues generated from the sale of water in Devens and to surrounding communities. Principal repayment of this loan begins in July 2024. The loan matures in July 2043.

The scheduled principal payments on this loan are not due to start until fiscal year 2025 and will be determined at the end of the drawdown period based on the total amount drawn down on the loan. The amount loaned as of June 30, 2023 was \$19,829,763.

15. Tax Incremental Financing Agreements/Special Tax Assessments

The Agency is committed to providing a supportive environment for business and economic development in the Devens Regional Enterprise Zone established by Chapter 498 of the Massachusetts Acts of 1993, as amended. The Agency may agree to temporary exemptions of incremental property taxes Tax Incremental Financing (TIF) or special tax assessments (STA) with businesses which agree to locate or expand in Devens.

The Agency had two TIF agreements outstanding as of June 30, 2023:

Purpose	Percentage of Tax Reduction	Value
Tax Incremental Financing:		
Biopharmaceutical company to construct and operate large scale cell culture facility	30%	\$ 798,059
Manufacturing, research and development facility	80% *	41,020
		<u>\$ 839,079</u>

* TIF percentage is based on qualifying project incremental value for the fiscal year (change in value each fiscal year only)

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Each TIF agreement was negotiated under provisions of MGL Chapter 59, Section 5, clause 51 and MGL Chapter 40, Section 59 allowing the Agency to grant temporary incremental property tax exemptions. The STA was granted in accordance with Chapter 23A, Section 3E of the MGL, allowing the Agency to grant special tax assessments.

The Agency uses the TIF and STA agreements as an economic development incentive at Devens. The execution of such agreements is intended to promote the creation or retention of full-time jobs in Devens, increase the Devens tax and revenue base and enhance the overall quality of life in Devens. All agreements contain annual reporting requirements to the Agency on employment levels. If a business fails to comply with its obligations under an agreement, the Agency will give written notice of such failure and provide an opportunity to meet with the Agency to discuss such failure. Continued failure to comply with obligations could result in the revocation of the related agreement.

16. Other Related Party Transactions

The following related party transactions are not reflective of consideration of what these arrangements might have been if they occurred in an arms-length transaction.

The Agency oversees the management and development of the Jodrey State Fish Pier (Pier) facilities, which are leased to the Agency by the Department of Conservation and Recreation (representing the Commonwealth). The Pier reimburses the Agency for the Pier's direct salary costs paid by the Agency, which amounted to \$88,290 for the year ended June 30, 2023. The Pier also reimburses the Agency for Agency staff time and operating expenses paid by the Agency, which amounted to \$208,166 for the year ended June 30, 2023.

The Agency also oversees management services for Cape Ann Fisheries Development Corporation (Cape Ann), a non-profit corporation formed for construction and management of a multi-tenant seafood processing facility at the State Fish Pier in Gloucester. In fiscal year 2001, the Agency provided two loans to Cape Ann in the amounts of \$2.3 million and \$500,000 for construction expenses and remediation of environmental conditions at the seafood processing facility. In fiscal year 2013, these loans were refinanced into four separate notes (Notes A and B for each loan). The balance on the Notes A loans receivable, net of allowance for loan loss, as of June 30, 2022, was \$396,586 and \$110,085. The Agency wrote off both Notes B during fiscal year 2013 as they were deemed uncollectible. These loans are included in loans receivable on the statement of net position.

In September 2009, the Agency refinanced another Cape Ann loan in the amount of \$2.7 million. In fiscal year 2013, this loan was refinanced into two separate notes (Notes A and B). The balance on the Note A loan receivable, net of allowance for loan loss, was \$632,917 as of June 30, 2023. The Agency wrote off Note B during fiscal year 2013 as it was deemed uncollectible.

The Agency donated \$118,073 of Agency staff time and \$15,581 of Cape Ann direct salary costs to Cape Ann during fiscal year 2023. These donated costs covered management services provided to Cape Ann during the fiscal year.

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The Agency is eligible to receive an administrative fee of up to 0.09% of the average daily assets of the STAR Fund. In May 2022, the Agency started to receive an additional 0.01% administrative fee to recoup fees lost when the STAR Fund interest rate was zero. The Agency's STAR Fund holdings held on its own account as of June 30, 2023, were \$143,432,385 and are included in cash and cash equivalents in the statement of net position. During the year ended June 30, 2023, the Agency received administrative fees of \$208,537 from the STAR Fund. The administrative fees are reported in bond issuance and new markets tax credit fees in the statement of revenues, expenses and changes in net position.

17. Benefit Plans

The Agency contributed approximately \$2.1 million to employee benefit plans described below during the year ended June 30, 2023.

Deferred Compensation Plan

The Agency offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees of the Agency, permits employees to defer a portion of their salaries. The Agency matches employees' deferrals up to 5% of the participants' salary, which are contributed to the 401(a) defined contribution plan. The participants' rights to the Agency contributions vest immediately. Employees may borrow up to 50% of their vested accrued balance in the account. Otherwise, the vested balance is not available to employees until termination, retirement, permanent disability, or death.

All contributions made under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of the participants and their beneficiaries.

Effective December 31, 1997, Section 401(a) of the IRC was amended by Section 1448 of the Small Business Job Protection Act of 1996 which provides that governmental deferred compensation plans must hold all assets and income of the plan in trust for the exclusive benefit of participants and their beneficiaries. In accordance with the legislation described above, the vested assets and associated liability of the deferred compensation plan assets are not included in the statement of net position.

401(a) Defined Contribution Plan

The Agency provides for retirement through a contribution to a 401(a) plan for eligible employees. The contribution is equal to a percentage of the employee's gross compensation earned each pay period. Currently, the Agency's contribution is 7.5% of the employee's gross compensation. Employees who began employment with the Agency on or after January 1, 1999 are subject to a three-year vesting schedule.

Employees may borrow up to 50% of their vested accrued balance in the 401(a) account. Otherwise, the vested balance is not available to employees until termination, retirement, permanent disability, or death.

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The unvested portion of the 401(a) plan is recorded as an asset on the statement of net position. The total unvested portion of the 401(a) plan as of June 30, 2023 was approximately \$593,000.

Pension Plan

Certain employees of the Agency are eligible to participate in the Commonwealth State Retirement Systems Pension Plan (the State Plan) under a special funding situation where the Commonwealth is the non-employer sole contributor under GASB No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). An Actuarial valuation has been performed for the State Plan. These employees were included in the actuarial analysis with a net pension liability of \$3,774,359 as of June 30, 2023 which is owed by the Commonwealth and noted as part of the total State Plan's net pension liability totaling \$13,909,874,000. The State Plan's net pension liability and the State Plan's net position are disclosed in the footnotes and other required supplementary information of the Annual Comprehensive Financial Report of the Commonwealth as there are no liabilities to be recorded in the Agency's financial statements. Employees participating in the State Plan are not eligible for the contribution to the 401(a) plan.

As discussed in Note 1, in 1998, the Land Bank and MIFA merged to create the Agency. Prior to this merger, all Land Bank employees were participants in the State Plan; MIFA employees were not. All former Land Bank employees were given the option to stay in the State Plan or take part in the retirement plans being offered by the Agency. Any new employees hired after the merger were not eligible to participate in the State Plan, except for the union firefighters at Devens. The State Plan provides benefits including retiree health benefits to qualifying retirees. The programs are carried out by the Commonwealth. There are currently 24 employees in the State Plan. Neither the Land Bank nor the Agency have ever been charged for post-retirement benefits for its current employees or its retirees from the Commonwealth Group Insurance Commission (CGIC). The Agency's management has reviewed the requirements of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, and believes the Agency is not liable for OPEB costs for current active or retired employees due to the following: there is no statutory requirement holding the Agency liable for OPEB costs; the Agency has never been billed by the CGIC for any OPEB costs and it is the legal opinion of the Agency's outside attorney that no evidence exists that indicates that the Agency is liable for these costs.

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18. Segment Reporting

Devens Electric Utility Division

A separate financial statement for the Devens Electric Utility Division is published and is available upon request.

Summary financial information for the Devens Electric Utility Division is presented below:

Statement of Net Position as of June 30, 2023:

Assets

Current assets	\$ 10,668,815
Due from Massachusetts Development Finance Agency	531,866
Noncurrent assets	3,862,176
Capital assets, net	<u>7,233,585</u>
Total assets	<u>\$22,296,442</u>

Liabilities and Net Position

Current liabilities	\$ 2,979,871
Noncurrent liabilities	<u>3,645,000</u>
Total liabilities	<u>6,624,871</u>

Net position

Net investment in capital assets	3,092,934
Restricted	<u>12,578,637</u>
Total net position	<u>15,671,571</u>
Total liabilities and net position	<u>\$ 22,296,442</u>

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Condensed Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2023:

Operating revenues	\$ 26,820,672
Operating expenses	(22,511,371)
Depreciation	<u>(1,086,312)</u>
Operating income	3,222,989
Nonoperating revenues, net	<u>217,718</u>
Increase in net position	3,440,707
Net position at beginning of year	<u>12,230,864</u>
Net position at end of year	<u><u>\$ 15,671,571</u></u>

Condensed Statement of Cash Flows for the year ended June 30, 2023:

Net cash provided by operating activities	\$ 2,634,577
Net cash used in capital and related financing activities	(793,349)
Net cash provided by investing activities	<u>285,539</u>
Net increase in cash and cash equivalents	2,126,767
Cash and cash equivalents at beginning of year	<u>7,928,161</u>
Cash and cash equivalents at end of year	<u><u>\$ 10,054,928</u></u>

19. New Markets Tax Credit Program (NMTC)

The Agency has accounted for its 0.01% to 0.10% ownership interests in the NMTC entities using the equity method of accounting. The total amount invested in these NMTC entities was \$10,078 as of June 30, 2023.

The Agency receives an annual management fee for services related to managing the operations of the NMTC entities, including accounting, legal, management, technical and other services, as needed by the NMTC entities. Total management fees earned for fiscal year 2023 were \$580,000. As of June 30, 2023, management fees of \$262,500 remain unpaid to the Agency, and are included in accounts receivable and other assets on the statement of net position.

The Agency may, from time to time, loan operating cash to the NMTC entities for professional services and be reimbursed at a later date. As of June 30, 2023, \$61,047 remains unpaid to the Agency.

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20. Legal Matters

The Agency is subject to various legal proceedings and claims that arise in the ordinary course of business. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of the Agency.

21. Risk Management

The Agency is exposed to various risks of loss related to general property and casualty losses. Accordingly, the Agency carries general liability and property insurance policies. The Agency also carries insurance coverage for business automobile, workers compensation, director and officer liability, professional liability, cyber liability, crime and special excess liability. There were no changes in coverage since last year and no settlements that exceeded insurance coverage for the past fiscal year.

22. Restatement of Balances

The Agency restated its fiscal year 2022 beginning net position due to the implementation of GASB No. 84, *Fiduciary Activities.*, in which a private purpose trust fund is shown in the Statement of Fiduciary Net Position rather than the Agency's Statement of Net Position and due to the adoption of GASB 96. The Agency also restated the beginning net position of the Fiduciary Funds as of June 30, 2022 in the Statement of Fiduciary Net Position to remove the Agency holdings in the Investment Trust Fund as of December 31, 2021 and to add a Private Purpose Trust Fund as of June 30, 2022.

Business Type Activities

June 30, 2022	Net Position Beginning of Year
Balance, as previously report	\$ 430,569,200
Adjustment to remove Private Purpose Trust Fund	(8,869,695)
Adoption of GASB 96	21,354
Balance, as restated	<u>\$ 421,720,859</u>

Fiduciary Funds

June 30, 2022	Net Position Beginning of Year
Balance, as previously reported	\$ 248,459,215
Adjustment to remove Investment Trust Fund Agency portion	(78,777,365)
Adjust to add Private Purpose Trust Fund	8,869,695
Balance, as restated	<u>\$ 178,551,545</u>

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Massachusetts Development Finance Agency
Other Information
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	General Operations	Brownfield Redevelopment	Emerging Technology	Cultural Facilities	Charter School Facilities	Site Readiness	Transformative Development Initiative	CARES Act	SSBCI Loans & Guarantees	Devens	Devens Electric Utility Division	Devens Gas, Water, Wastewater Utility Divisions	Other	Taunton Corp.	Eliminations	Total
Assets																
Current assets	\$ 52,525,996	\$ 10,199,206	\$ 38,255,927	\$ 7,447,471	\$ 36,170,009	\$ 7,662,008	\$ 21,767,199	\$ 895,762	\$ 15,118,404	\$ 28,809,807	\$ 11,200,681	\$ 10,179,858	\$ 67,703,243	\$ 7,751,329	\$ (80,000)	\$ 315,606,900
Noncurrent assets	108,787,520	1,237,259	11,032,819	-	(549,548)	-	4,677,750	1,701,894	114,416	12,727,440	3,862,176	8,001,607	(61,166)	-	(8,428,761)	143,103,406
Capital, leased, subscription assets, net	6,198,462	-	-	-	-	-	191,892	-	-	33,308,010	7,233,585	49,817,619	-	1,872,743	-	98,622,311
Total assets	\$ 167,511,978	\$ 11,436,465	\$ 49,288,746	\$ 7,447,471	\$ 35,620,461	\$ 7,662,008	\$ 26,636,841	\$ 2,597,656	\$ 15,232,820	\$ 74,845,257	\$ 22,296,442	\$ 67,999,084	\$ 67,642,077	\$ 9,624,072	\$ (8,508,761)	\$ 557,332,617
Liabilities																
Current liabilities	\$ 10,650,068	\$ 2,582,304	\$ 3,547	\$ 4,204,096	\$ 9,240	\$ 2,621,765	\$ 6,349,486	\$ -	\$ 6,125,618	\$ 2,549,046	\$ 2,979,871	\$ 3,159,021	\$ 28,102,771	\$ 90,526	\$ (80,000)	\$ 69,347,359
Noncurrent liabilities	1,581,657	-	-	-	77,514	-	-	-	21,667	8,212,174	3,645,000	33,429,699	16,925,728	-	(8,428,761)	55,464,678
Total liabilities	12,231,725	2,582,304	3,547	4,204,096	86,754	2,621,765	6,349,486	-	6,147,285	10,761,220	6,624,871	36,588,720	45,028,499	90,526	(8,508,761)	124,812,037
Deferred inflows of resources																
Leases deferred inflows of resources	62,201	-	-	-	-	-	-	-	-	4,326,168	-	-	-	-	-	4,388,369
Net position																
Net investment in capital assets	3,857,362	-	-	-	-	-	191,892	-	-	32,509,035	3,092,934	24,247,105	-	1,872,743	80,000	65,851,071
Restricted	593,496	8,854,161	49,285,199	3,243,375	35,533,707	5,040,243	20,095,463	2,597,656	9,085,535	27,248,834	12,578,637	7,163,259	22,201,600	7,660,803	(80,000)	211,101,968
Unrestricted	150,767,194	-	-	-	-	-	-	-	-	-	-	411,978	-	-	-	151,179,172
Total net position	155,218,052	8,854,161	49,285,199	3,243,375	35,533,707	5,040,243	20,287,355	2,597,656	9,085,535	59,757,869	15,671,571	31,410,364	22,613,578	9,533,546	-	428,132,211
Total liabilities, deferred inflows of resources	\$ 167,511,978	\$ 11,436,465	\$ 49,288,746	\$ 7,447,471	\$ 35,620,461	\$ 7,662,008	\$ 26,636,841	\$ 2,597,656	\$ 15,232,820	\$ 74,845,257	\$ 22,296,442	\$ 67,999,084	\$ 67,642,077	\$ 9,624,072	\$ (8,508,761)	\$ 557,332,617

Statements of Departmental Revenues, Expenses and Changes in Net Position

	General Operations	Brownfield Redevelopment	Emerging Technology	Cultural Facilities	Charter School Facilities	Site Readiness	Transformative Development Initiative	CARES Act	SSBCI Loans & Guarantees	Devens	Devens Electric Utility Division	Devens Gas, Water, Wastewater Utility Divisions	Other	Taunton Corp.	Eliminations	Total
Operating revenues	\$ 18,673,907	\$ 73,468	\$ 533,303	\$ -	\$ 161,376	\$ 226	\$ (1,523,043)	\$ 54,657	\$ 11,083	\$ 17,590,277	\$ 26,820,672	\$ 12,552,630	\$ 410,281	\$ (91,547)	\$ (431,272)	\$ 74,836,018
Operating expenses	(21,919,635)	(304,600)	(2,454,159)	(674,820)	(19,987)	(3,836,797)	(4,710,178)	(116,958)	(138,923)	(19,783,749)	(23,597,683)	(12,230,524)	(2,084,051)	(155,713)	1,247,904	(90,779,873)
Operating income (loss)	(3,245,728)	(231,132)	(1,920,856)	(674,820)	141,389	(3,836,571)	(6,233,221)	(62,301)	(127,840)	(2,193,472)	3,222,989	322,106	(1,673,770)	(247,260)	816,632	(15,943,855)
Nonoperating revenues (expenses)	822,957	344,278	2,558,171	274,982	1,159,522	295,438	898,426	16,918	360,871	866,487	217,718	551,397	2,045,030	-	11,130	10,423,325
Capital contributions (distributions)	(6,640,875)	2,921,215	-	674,820	-	4,658,904	878,986	-	8,875,897	9,851	-	-	1,380,846	-	(827,762)	11,931,882
Increase (decrease) in net position	(9,063,646)	3,034,361	637,315	274,982	1,300,911	1,117,771	(4,455,809)	(45,383)	9,108,928	(1,317,134)	3,440,707	873,503	1,752,106	(247,260)	-	6,411,352
Net position-beginning of year (as restated)	164,281,698	5,819,800	48,647,884	2,968,393	34,232,796	3,922,472	24,743,164	2,643,039	(23,393)	61,075,003	12,230,864	30,536,861	20,861,472	9,780,806	-	421,720,859
Net position-end of year	\$ 155,218,052	\$ 8,854,161	\$ 49,285,199	\$ 3,243,375	\$ 35,533,707	\$ 5,040,243	\$ 20,287,355	\$ 2,597,656	\$ 9,085,535	\$ 59,757,869	\$ 15,671,571	\$ 31,410,364	\$ 22,613,578	\$ 9,533,546	\$ -	\$ 428,132,211

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Compliance Report
Year Ended June 30, 2023

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

Independent Auditor's Report

Board Members
Massachusetts Development Finance Agency

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 Massachusetts Development Finance Agency (the Agency), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated XXXXXXXX.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses and significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

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

Purpose of This Report

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

Boston, Massachusetts
XXXXXXXX

DRAFT

**Independent Auditor's Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required By Uniform Guidance**

Board of Directors
Massachusetts Development Finance Agency

Report on Compliance for Each Major Federal Program

We have audited the Massachusetts Development Finance Agency's (the Agency), a component unit of the Commonwealth of Massachusetts, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2023. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Agency as of and for the years ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements. We have issued our report thereon dated XXXXXXXX, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Boston, Massachusetts
XXXXXXXXXX

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023**

Cluster Title Federal Grantor/ Pass-Through Grantor/Program	Federal Assistance Listing Number	Grant Contract Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Economic Adjustment Assistance (EAA) Cluster:				
U.S. Department of Commerce				
Direct awards:				
COVID 19-Economic Development Administration CARES Act Revolving Loan Fund	11.307	01-79-14997	N/A	\$ 2,975,761
Public Works	11.300	01-01-14915/11352	N/A	<u>205,562</u>
Total U.S. Department of Commerce				<u>3,181,323</u>
U.S. Department of Education				
Direct awards:				
Charter School Loan Guarantee Fund	84.354A	N/A	N/A	<u>24,906,596</u>
Total U.S. Department of Education				<u>24,906,596</u>
Total EAA Cluster				<u>28,087,919</u>
Federal Transit Cluster:				
U.S. Department of Homeland Security				
Pass-through from the Commonwealth of Massachusetts				
Massachusetts Emergency Management Agency	97.044	N/A	FY23EMPG2200000DEVEN	<u>2,700</u>
Total U.S. Department of Homeland Security/Federal Transit Cluster				<u>2,700</u>
Total expenditures of federal awards				<u>\$ 28,090,619</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Massachusetts Development Finance Agency (the Agency”), a component unit of the Commonwealth of Massachusetts, under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net position or cash flows of the Agency.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures/expenses are not allowable or are limited as to reimbursement.

Note 3. Indirect cost rate

The Agency has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. Provided to Subrecipients

The Agency did not provide any funds to subrecipients.

Note 5. Economic Adjustment Assistance Cluster: Economic Development Administration (ALN 11.307)

The Agency administers a revolving loan fund, which was funded by the COVID-19 CARES Act Economic Adjustment Assistance Program to alleviate sudden and severe economic dislocation caused by the coronavirus pandemic. One new loan was closed during the year ended June 30, 2023. As of June 30, 2023 and June 30, 2022, there were loans outstanding of \$2,254,976 and \$2,738,101 with reserves of \$379,751 and \$263,622 for a total net loan receivable balance of \$1,875,225 and \$2,474,479, respectively. The award also provides a total of \$193,469 to defray the cost of administering the program. During the year ended June 30, 2023, the program also incurred \$829 of program specific expenses.

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2023**

Note 6. Charter School Loan Guarantee Fund (ALN 84.354A)

The Charter School Fund program currently has a total capitalization of \$75,025,000 derived from six grant awards from the U.S. Department of Education (U.S. DOE), matching private guarantees from The Local Initiatives Support Corporation and matching guarantees from the Agency's General Fund.

During fiscal year 2005, the Agency was awarded \$10,025,000 from the U.S. DOE to enable the Agency to facilitate the financing of charter schools through the issuance of loan guarantees. The first tier of the 2005 funding includes the \$10,025,000 from the U.S. DOE and a \$500,000 matching guarantee provided by the Agency's General Fund. The second tier of the 2005 funding included a \$2,000,000 guarantee from Local Initiatives Support Corporation and a \$500,000 guarantee from the Agency's General Fund.

During fiscal year 2014, the Agency was awarded another \$5,000,000 towards this program by the U.S. DOE and the Agency's General Fund may provide up to \$5,000,000 of match funding for guarantees.

During fiscal years 2015 and 2016, the Agency was awarded another \$3,900,000, and \$1,100,000, respectively, under one grant, and the Agency's General Fund may provide up to \$5,000,000 of match funding for guarantees.

During fiscal year 2018, the Agency was awarded another \$8,000,000 towards this program by the U.S. DOE and the Agency's General Fund may provide up to \$8,000,000 of match funding for guarantees.

During fiscal year 2020, the Agency was awarded another \$5,000,000 towards this program by the U.S. DOE. Additionally, second tier support of \$5,000,000 was provided in fiscal 2021 and includes support from the Agency's General Fund providing up to \$2,500,000 of matching funds and Local Initiatives Support Corporation providing a \$2,500,000 guarantee.

During fiscal year 2021, the Agency was awarded another \$8,000,000 towards this program by the U.S. DOE and the Agency's General Fund may provide up to \$8,000,000 of match funding for guarantees.

These grant funds from U.S. DOE are held as short-term investments by the Agency under the terms of the grant and can be used to pay claims on its guarantees. Interest earned on the funds remain within the fund. There were no new guarantees during the year ended June 30, 2023. As of June 30, 2023, there were sixteen guarantees outstanding for a total of \$24,621,840 with reserves of \$549,542. As of June 30, 2022, twenty-one guarantees outstanding for a total of \$33,272,627 with reserves of \$814,326. No funds for guarantees were disbursed during the year ended June 30, 2023. An amendment to the Performance Agreement in September 2009 allows the Agency to be reimbursed for program specific expenses. During the year ended June 30, 2023, the program incurred \$284,756 of program specific expenses which were charged to the fund.

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2023**

I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted?

 Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of major federal programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program</u>
84.354A	Charter School Loan Guarantee Fund

Dollar threshold used to distinguish between Type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X Yes No

II. Financial Statement Findings

A. Internal Control over Financial Reporting

No matters to report.

B. Compliance Findings

No matters to report.

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2023**

III. Findings and Questioned Costs for Federal Awards

A. Internal Control over Financial Reporting

No matters to report.

B. Compliance Findings

No matters to report.

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**Massachusetts Development
Finance Agency**
(A Component Unit of the Commonwealth of
Massachusetts)

**Devens Electric Utility Division
Financial Statements**

Fiscal Year Ended June 30, 2023 and 2022

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Devens Electric Utility Division
Fiscal Year Ended June 30, 2023 and 2022**

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RSM US LLP

Independent Auditor's Report

Board Members
Massachusetts Development Finance Agency

Opinion

We have audited the financial statements of the business-type activities of the Devens Electric Utility Division (the Devens Electric Utility Division) of the Massachusetts Development Finance Agency (the Agency), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Devens Electric Utility Division's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities for the Devens Electric Utility Division of the Agency, as of June 30, 2023 and 2022, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Devens Electric Utility Division are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the Agency that is attributable to the transactions of the Devens Electric Utility Division. They do not purport to, and do not, present fairly the financial position of the Agency as of June 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Devens Electric Utility Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

RSM US LLP

Boston, Massachusetts
December 19, 2023

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Devens Electric Utility Division
Management's Discussion and Analysis
Year Ended June 30, 2023 and 2022
(unaudited)

As management of the Massachusetts Development Finance Agency (“the Agency”), we offer the readers of the Massachusetts Development Finance Agency Devens Electric Utility Division (the Devens Electric Utility Division) financial statements this narrative overview and analysis of the financial activities for the fiscal years ended June 30, 2023 and 2022. This discussion and analysis should be read in conjunction with the accompanying financial statements. Unless otherwise indicated, years 2023, 2022 and 2021 in this discussion refer to the fiscal year ended June 30.

The Agency was created on September 30, 1998, pursuant to Chapter 23G of Massachusetts General Laws (Chapter 289 of the Acts of 1998). The Agency is a body corporate and politic and a public instrumentality and was created from the statutory merger of, and is the legal successor in all respects to, two previous existing instrumentalities, the Massachusetts Government Land Bank (created in 1975 under Chapter 212 of the Acts of 1975) and the Massachusetts Industrial Finance Agency (created in 1978 pursuant to Chapter 23A of the Massachusetts General Laws) and is the legal successor to the Massachusetts Health and Educational Facilities Authority (created pursuant to Chapter 614 of the Acts of 1968). The purpose of the Agency is to stimulate economic growth, increase employment, eradicate blight, promote prosperity, and help build communities throughout the Commonwealth of Massachusetts (the Commonwealth). The Agency has also been charged with the responsibility to redevelop and manage the former Fort Devens (Devens) and has been granted the authority to issue debt for the redevelopment of Devens.

The Agency is governed by an 11-member Board of Directors, nine of whom are appointed directly by the Governor from the private sector and two of whom are public officials, or their designees, serving ex officio. The Agency is considered a component unit of the Commonwealth for financial statement reporting purposes.

In February 2001, the Agency issued Electrical System Revenue Bonds, Series 2001 for the purpose of financing the design, construction, installation, and associated costs of an electrical system at Devens.

The Agency acquired the electric transmission and distribution facilities (the Electric System) serving Devens from the Army in 1996. The Electric System includes five transmission substations that interconnect Devens with the regional transmission system serving New England, as well as electric distribution facilities serving the area within Devens.

To lower the weighted average interest rate on the bonds, the Agency refunded these bonds in December 2011 and issued Devens Electric System Refunding Revenue Bonds, Series 2011 (Series 2011 Bonds).

In September 2021, another bond refund was done, and the Series 2021 Bonds were issued with a maturity date of December 1, 2030, and a 1.6401% interest rate. This bond is redeemable at 103% if done before September 1, 2022, or 100%, if redeemed after this date.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default as long as the Agency complies with specific requirements included in the agreement. As of June 30, 2023, the debt service coverage ratio was met, so there was no need to implement the cure method like in the prior fiscal year.

As required by Section 609 of the Master Trust Indenture by and between the Agency and the Trustee, commencing on February 1, 2001, all activities for the electric utilities at Devens are reported as a separate division within the Agency.

Using the Financial Statements

The Devens Electric Utility Division's annual report includes three basic financial statements: the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

The statements of net position present the financial position of the Devens Electric Utility Division as of June 30, 2023, and 2022. They provide information about the nature and amount of resources (assets), obligations (liabilities) and net position. The net position component of net investment in capital assets consists of all capital assets, net of accumulated depreciation, less the outstanding balances of any outstanding debt that is attributable to the acquisition, construction, or improvements of those assets. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. The restricted net position is expendable, which allows imposed stipulations to be fulfilled by actions of the Devens Electric Utility Division pursuant to those stipulations or by expiration due to passage of time. All other net positions would be considered unrestricted. As of June 30, 2023, 2022 and 2021, the Devens Electric Utility Division did not have any unrestricted net position.

Revenues and expenses are categorized as either operating or non-operating based upon management's definition of the Devens Electric Utility Division's principal ongoing operations.

Statements of Net Position

	2023	2022	2021
Assets			
Noncapital assets	\$ 15,062,857	\$ 11,599,302	\$ 10,960,970
Capital assets (net of accumulated depreciation)	<u>7,233,585</u>	<u>8,107,906</u>	<u>9,272,777</u>
Total assets	<u>\$ 22,296,442</u>	<u>\$ 19,707,208</u>	<u>\$ 20,233,747</u>
Liabilities			
Current liabilities	\$ 2,979,871	\$ 3,341,344	\$ 2,559,856
Noncurrent liabilities	<u>3,645,000</u>	<u>4,135,000</u>	<u>4,440,409</u>
Total liabilities	<u>6,624,871</u>	<u>7,476,344</u>	<u>7,000,265</u>
Net Position			
Net investment in capital assets	3,092,934	3,481,591	4,440,433
Restricted	<u>12,578,637</u>	<u>8,749,273</u>	<u>8,793,049</u>
Total net position	<u>15,671,571</u>	<u>12,230,864</u>	<u>13,233,482</u>
Total liabilities and net position	<u>\$ 22,296,442</u>	<u>\$ 19,707,208</u>	<u>\$ 20,233,747</u>

Noncapital Assets

Noncapital assets mainly include cash and cash equivalents, investments, due from the Agency and accounts receivable.

Cash and cash equivalents of \$3,570,691, \$3,850,729, and \$3,847,552 in noncurrent restricted funds represent capital repair, operating and debt service reserves as of June 30, 2023, 2022 and 2021, respectively. Most of the remaining current restricted funds of \$6,514,237 as of June 30, 2023, \$4,077,432 as of June 30, 2022, and \$3,355,923 as of June 30, 2021, represent cash on hand for operations of the utility system.

The increase in current restricted funds for fiscal year 2022 and 2023 was mainly within the Revenue Fund and is due to rate increases and excess customer receipts versus expenses paid. There were no inter-fund transfers for the last two fiscal years; however, in fiscal year 2021, there were transfers of \$11,629,026 to assist with capital upgrades of the Devens water system.

Capital Assets

For fiscal year 2023, capital assets decreased by \$874,321 or 10.78% over the prior year, and by \$1,164,871 or 12.56% from 2021 to 2022. This was mainly due to depreciation expense during each fiscal year. There were small capital additions for fiscal years 2023 and 2022 in the amounts of \$211,991 and \$123,024, respectively, but no capital sales.

See Note 6 to the financial statements for more information on capital assets.

Current Liabilities

Current liabilities mainly include accrued expenses, inclusive of deposits for utility construction projects, sales tax, project escrow payable and the current portion of bonds payable. Current liabilities decreased by \$361,472 or 10.8%, as of June 30, 2023, mainly due to there being no due to the Agency, however, there was a due from, in the amount of \$531,866. On the other hand, for fiscal year 2022, there was an increase of \$781,488 or 30.5% in current liabilities, primarily

because of a due to the Agency, resulting from the timing of electric receipts and payments at year-end.

Noncurrent liabilities

Noncurrent liabilities are comprised of the noncurrent portion of bonds payable. There was a decrease of \$490,000 or 11.9% from 2022 to 2023 and 2021 to 2022 decreased by \$305,409 or 6.9%, was primarily due to principal payment of \$485,000 in fiscal year 2023 and \$4,990,000 for fiscal year 2022, due to the Series 2021 bond refund.

See Note 7 to the financial statements for more information on bonds payable.

Net Position

Net position represents the residual interest in Devens Electric Utility Division's assets after all liabilities are deducted. From 2022 to 2023, there was a \$3,440,707 or 28.1% increase in net position, because of increased revenue from higher consumption and increased rates.

Additionally, the due from was almost twice as less as the due to of the prior fiscal year. Fiscal year 2022 net position decreased by \$1,002,618 or 7.6%, due primarily to the increased cost to supply more electrical use, as well as bond issuance financing cost and interest expense.

	2023	2022	2021
Operating revenues	\$ 26,820,672	\$ 19,988,793	\$ 19,518,413
Operating expenses	<u>23,597,683</u>	<u>20,713,240</u>	<u>18,082,984</u>
Operating income (loss)	3,222,989	(724,447)	1,435,429
Nonoperating revenues (expenses), net	<u>217,718</u>	<u>(278,171)</u>	<u>(183,735)</u>
Income (loss) before distributions and transfers	3,440,707	(1,002,618)	1,251,694
Inter-fund transfer to Devens Water Utility Division Program of Massachusetts Development Finance Agency	<u>-</u>	<u>-</u>	<u>(11,629,026)</u>
Increase (decrease) in net position	3,440,707	(1,002,618)	(10,377,332)
Net position at beginning of year	<u>12,230,864</u>	<u>13,233,482</u>	<u>23,610,814</u>
Net position at end of year	<u>\$ 15,671,571</u>	<u>\$ 12,230,864</u>	<u>\$ 13,233,482</u>

Operating Revenues and Expenses

Operating revenues increased by \$6,831,879 or 34.2% in 2023 and by \$470,380 or 2.4% in 2022, mainly due to rate increases and more power consumption during each fiscal year.

Operating expenses increased by \$2,884,443 or 13.9% in 2023 and by \$2,630,256 or 14.5% in 2022, mainly due to increased power usage which led to increased power purchased during the fiscal years.

Non-operating (expenses) revenues, net

Non-operating (expenses) revenues, net consists of interest income, interest expense, bond discount and other non-operating revenues and expenses. Non-operating revenue, net increased by \$495,889 or 178.3% in 2023, due to decreased interest income, lower interest expense and financing cost. Non-operating expenses, net increased by \$94,436 or 51.4% in 2022, mainly due to financing costs of the Series 2021 Bonds in fiscal year 2022.

**Inter-fund Transfer to Devens Water Utility Division Program of Massachusetts
Development Finance Agency**

The Devens Electric Utility Division met the 1.5 debt service coverage test during fiscal year 2023, however, no transfers were made. In fiscal year 2022, the debt service coverage ratio was not met, therefore no inter-fund transfers were made, per Section 504 of the Bond Resolution Agreement.

Requests for Information

This financial report is designed to provide a general overview of the Devens Electric Utility Division's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, Massachusetts Development Finance Agency, 99 High Street, 11th Floor, Boston, MA, 02110.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Devens Electric Utility Division
Statements of Net Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current assets		
Cash and cash equivalents - restricted for use	\$ 6,514,237	\$ 4,077,432
Accounts receivable and other assets (net of allowance of \$22,631 and \$47,085 as of June 30, 2023 and 2022, respectively)	4,152,210	3,375,162
Interest receivable	2,368	1,135
Due from Massachusetts Development Finance Agency	<u>531,866</u>	<u>-</u>
Total current assets	<u>11,200,681</u>	<u>7,453,729</u>
Noncurrent assets		
Cash and cash equivalents - restricted for use	1,042,209	1,008,914
Cash and cash equivalents - restricted for capital use	2,528,481	2,841,815
Investments	291,485	294,844
Capital assets, net	<u>7,233,585</u>	<u>8,107,906</u>
Total noncurrent assets	<u>11,095,760</u>	<u>12,253,479</u>
Total assets	<u>\$ 22,296,442</u>	<u>\$ 19,707,208</u>
Liabilities		
Current liabilities		
Accrued expenses	\$ 2,380,960	\$ 1,826,691
Accrued interest payable	5,652	6,315
Sales tax payable	28,260	1,444
Due to Massachusetts Development Finance Agency	-	946,894
Current portion of bonds payable	490,000	485,000
Project escrow payable	<u>75,000</u>	<u>75,000</u>
Total current liabilities	<u>2,979,872</u>	<u>3,341,344</u>
Noncurrent liabilities		
Bonds payable	<u>3,645,000</u>	<u>4,135,000</u>
Total liabilities	<u>6,624,872</u>	<u>7,476,344</u>
Net Position		
Net investment in capital assets	3,092,934	3,481,591
Restricted	<u>12,578,637</u>	<u>8,749,273</u>
Total net position	<u>15,671,571</u>	<u>12,230,864</u>
Total liabilities and net position	<u>\$ 22,296,442</u>	<u>\$ 19,707,208</u>

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Devens Electric Utility Division
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
Operating revenues		
Utility charges	\$ 26,820,672	\$ 19,988,793
Operating expenses		
Purchased power and transmission	21,273,140	18,296,515
Operations and maintenance services	929,672	906,997
General and administrative	308,559	221,833
Depreciation	<u>1,086,312</u>	<u>1,287,895</u>
Total operating expenses	<u>23,597,683</u>	<u>20,713,240</u>
Operating income (loss)	3,222,989	(724,447)
Nonoperating revenues (expenses)		
Interest income	283,413	11,586
Interest expense	(71,133)	(160,184)
Amortization of bond discount	-	(4,591)
Financing cost	<u>5,438</u>	<u>(124,982)</u>
Nonoperating revenues (expenses), net	<u>217,718</u>	<u>(278,171)</u>
Increase (decrease) in net position	3,440,707	(1,002,618)
Net position - beginning of year	<u>12,230,864</u>	<u>13,233,482</u>
Net position - end of year	<u>\$ 15,671,571</u>	<u>\$ 12,230,864</u>

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Devens Electric Utility Division
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Receipts from customers	\$ 26,261,906	\$ 19,599,491
Payments to suppliers for goods and services	(21,816,992)	(19,257,815)
Payments of general and administration expenses	(331,578)	(241,308)
Payments (to) from Massachusetts Development Finance Agency	(1,478,760)	1,314,993
Net cash provided by operating activities	2,634,576	1,415,361
Cash flows from capital and related financing activities		
Acquisition of capital assets	(211,991)	(148,737)
Payments of financing costs	5,438	(124,982)
Additions to bonds payable	-	4,755,000
Principal payments on bonds payable	(485,000)	(4,990,000)
Payments of interest	(71,796)	(153,869)
Net cash used in capital and related financing activities	(763,349)	(662,588)
Cash flows from investing activities		
Purchases of investments	3,359	(39,560)
Receipts of interest income	282,180	11,473
Net cash provided by (used in) investing activities	285,539	(28,087)
Net increase in cash and cash equivalents	2,156,766	724,686
Cash and cash equivalents at beginning of year	7,928,161	7,203,475
Cash and cash equivalents at end of year	\$ 10,084,927	\$ 7,928,161
Reconciliation of cash flows from operating activities		
Operating income (loss)	\$ 3,222,989	\$ (724,447)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Bad debt expense	(23,448)	(24,453)
Depreciation	1,086,312	1,287,895
Changes in assets and liabilities		
Accounts receivable and other assets	(753,602)	(217,619)
Accrued expenses	554,269	(213,179)
Sales tax payable	26,816	(7,829)
Due to Massachusetts Development Finance Agency, net	(1,478,760)	1,314,993
Total adjustments	(588,413)	2,139,808
Net cash provided by operating activities	\$ 2,634,576	\$ 1,415,361

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Devens Electric Utility Division
Notes to Financial Statements

1. Basis of Presentation

Massachusetts Development Finance Agency (the Agency) is a corporate, political, and public body instrumentality formed for the purpose of stimulating economic growth, increasing employment, eradicating blight, promoting prosperity, and helping build communities throughout the Commonwealth of Massachusetts.

In February 2001, the Agency issued Electric System Revenue Bonds (Series 2001 Bonds), for the purpose of financing the design, construction, installation, and associated costs of the electrical system at the former Fort Devens (Devens).

In an effort to lower the weighted average interest rate on the bonds, the Agency refunded the bonds in December 2011 and issued Electric System Revenue Bonds, Series 2011 (Series 2011 Bonds). Likewise, with rapidly increasing interest rates, the Series 2011 Bonds were refunded in September 2021 and the Electric System Revenue Bonds, Series 2021 (Series 2021 Bonds) were issued.

As required by Section 609 of the Master Trust Indenture by and between the Agency and the Trustee, the Agency, commencing on February 1, 2001, all activities for the electric utilities at Devens are reported as a separate division within the Agency (the Devens Electric Utility Division).

2. Significant Accounting Policies

Accounting and Reporting Standards

The financial statements of the Devens Electric Utility Division are intended to present the financial position, the changes in financial position and cash flows of only that portion of the business-type activities of the Agency that is attributable to the transactions of the Devens Electric Utility Division. They do not purport to, and do not, present fairly the financial position of the Agency, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

These financial statements have been prepared in accordance with GAAP, as prescribed by the Governmental Accounting Standards Board (GASB), which establishes standards for defining and reporting on the financial reporting entity.

The GASB defines the basic financial statements of a business type activity as the: statement of net position, statement of revenues, expenses and changes in net position, statement of cash flows, and management's discussion and analysis as required supplemental information. The statement of net position is presented to illustrate both the current and noncurrent balances of each asset and liability. All revenues and expenses are classified as either operating or nonoperating activities in the statement of revenues, expenses, and changes in net position. Operating activities are those that support the mission and purpose of the Devens Electric Utility Division. Nonoperating activities represent transactions that are capital, investing, legislative or regulated in nature.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Devens Electric Utility Division
Notes to Financial Statements

Net position represents the residual interest in the Devens Electric Utility Division's assets after all liabilities are deducted and consists of net investment in capital assets, restricted, and unrestricted, as follows:

- **Net investment in capital assets**
Net investment in capital assets includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted**
Nonexpendable - Net position subject to externally imposed stipulations such that the Agency maintains them permanently. At June 30, 2023 and 2022, the Devens Electric Utility Division did not have nonexpendable restricted net position.

Expendable - Net position whose use by the Devens Electric Utility Division is subject to externally imposed stipulations that can be fulfilled by actions of the Devens Electric Utility Division pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted**
Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors (Board) or may otherwise be limited by contractual agreements with outside parties. As of June 30, 2023 and 2022, the Devens Electric Utility Division did not have unrestricted net position.

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting in conformity with GAAP. Under the accrual basis, revenue is recognized when earned and expenses are recognized when obligations are incurred or when benefits are received.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with maturities of three months or less at acquisition. Current cash and cash equivalents-restricted for use consists of funds available for current operations. Noncurrent cash and cash equivalents-restricted for use consists of funds available for future operations. Noncurrent cash and cash equivalents-restricted for capital use consist of funds available for future capital improvements. All cash and cash equivalents are considered restricted due to bond covenants in the bond documents.

Investments

The Devens Electric Utility Division's investments with maturity dates of greater than one year at the time of purchase are reported at fair value using quoted market price. Fair value is defined by GASB Statement No. 72, *Fair Value Measurement and Application*, 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. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. The

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hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumptions.

All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenue, expenses, and changes in net position.

Guaranteed investment contracts (GIC) are reported at contract value. Contract value represents contributions made under the contract plus accrued interest.

Capital Assets

Capital assets are recorded at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method at rates intended to depreciate the cost of the assets over the assets' estimated useful lives, which range from 5 to 40 years. The Devens Electric Utility Division's threshold for classification of a capital asset is \$5,000.

Maintenance and repairs are charged to expense when incurred while betterments and additions are capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from net assets and any gain or loss is recognized in the statements of revenues, expenses, and changes in net position.

Devens Electric Utility Division assesses the carrying value of property whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with GAAP. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used are measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage are measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. Devens Electric Utility Division did not record any impairment charges as of June 30, 2023, and 2022 as there were no indicators of impairment.

Bonds Payable

Bonds payable are recorded at the date of issuance, net of any related premium or discount. Bond premiums and discounts are accreted and amortized, respectively, over the term of the related bond maturities. These amounts are recorded as a component of nonoperating expenses in the statements of revenues, expenses, and changes in net position.

Revenue Recognition

Utility income is recognized as revenue in the period the energy is provided to the customer. The Devens Electric Utility Division has defined its primary activities as both operating and nonoperating in nature. Operating activities consist primarily of activities supporting the mission and purpose of the Devens Electric Utility Division. Nonoperating revenue consists of interest income earned on cash and cash equivalents and investments.

Massachusetts Development Finance Agency
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Notes to Financial Statements

Interest income is recognized as earned in the statements of revenues, expenses, and changes in net position.

Purchased Power and Transmission

Purchased power and transmission expenses are reported in the period the related revenue is recognized.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

Accounting Standards Effective in Current Year

During 2023, the Agency adopted GASB No. 91, *Conduit Debt Obligations*. The objective of this standard is to provide a single method of reporting conduit debt obligations by issuers. This standard became effective for reporting periods beginning after December 15, 2021. The adoption of this standard did not have a significant effect on the Devens Electric Utility Division financial statements.

During 2023, the Agency adopted GASB No. 93, *Replacement of Interbank Offered Rates*. The objective of this standard is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The removal of IBOR as an appropriate benchmark interest rate is now in effect for reporting periods beginning after December 31, 2022. All other requirements of this standard are now effective for reporting periods beginning after June 15, 2022. The adoption of this standard did not have a significant effect on the Devens Electric Utility Division financial statements.

During 2023, the Agency adopted GASB No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this standard is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This standard became effective for reporting periods beginning after June 15, 2022. The adoption of this standard did not have a significant effect on the Devens Electric Utility Division financial statements.

During 2023, the Agency adopted GASB issued GASB No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this standard is to improve guidance on accounting and financial reporting for subscription-based information technology arrangements. This standard became effective for reporting periods beginning after June 15, 2022. The adoption of this standard did not have a significant effect on the Devens Electric Utility Division financial statements.

Massachusetts Development Finance Agency
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New Accounting Standards Not Yet Effective

In April 2022, the GASB issued GASB No. 99, *Omnibus 2022*. The objective of this standard is to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature. There are varying effective dates based on the applicable requirements in the related GASB. The Devens Electric Utility Division is in the process of reviewing how the adoption of this standard will impact its financial statements.

In June 2022, the GASB issued GASB No. 100, *Accounting Changes and Error Corrections-an amendment of GASB No. 62*. The objective of this standard is to enhance accounting and financial reporting for accounting changes and error corrections. This standard is effective for reporting periods beginning after June 15, 2023. Earlier application is encouraged. The Devens Electric Utility Division is in the process of reviewing how the adoption of this standard will impact its financial statements.

In June 2022, the GASB issued GASB No. 101, *Compensated Absences*. The objective of this standard is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This standard is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged. The Devens Electric Utility Division is in the process of reviewing how the adoption of this standard will impact its financial statements.

Subsequent Events

Management has evaluated subsequent events through December 19, 2023, the date the financial statements were available for issuance, noting no additional material events to disclose other than the items noted below.

3. Related Party Transactions

The following related party transactions are not reflective of consideration of what these arrangements might have been if they occurred in an arms-length transaction.

The Devens Electric Utility Division does not have any employees. The Agency is reimbursed for staff time spent on providing accounting, treasury, and facility maintenance services to the Devens Electric Utility Division. The Devens Electric Utility Division paid \$248,550 and \$220,456 to the Agency for the years ended June 30, 2023 and 2022, respectively. Payroll and vacation accrued amounts are reflected in the due to or due from Massachusetts Development Finance Agency balances as of June 30, 2023 and 2022, respectively.

Customer receipts are received by the Agency for the benefit of the Devens Electric Utility Division and are deposited into the Agency's General Operations Program and then transferred to the bond trustee. Capital assets and expenses are paid by the Agency's General Operations Program on behalf of the Devens Electric Utility Division and are repaid to the General Operations Program in the following month. For fiscal year 2023

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there were no amounts due to MassDevelopment Finance Agency, however, there was an amount of \$531,866 due from the Agency. Additionally, as of June 30, 2022, no balances were due from the Agency, but the balance due to the Agency had an amount of \$946,894. This amount represents the net of customer receipts, expenses paid, accrued payroll and vacation amounts, which is mainly due to the timing of receipts.

4. The Devens Electric Utility System

The Devens Electric Utility Division uses Master Power Supply Agreements to procure necessary power supply requirements from time to time as market and load growth conditions dictate. The Devens Electric Utility Division secured 60% of its 2023 power supply requirements using confirmations in place with NextEra, Shell Energy, Macquarie, and BP Energy. 21% was provided by wind, solar and hydro renewables with the balance of 19% being secured through the ISO-NE Day Ahead and Real Time energy market.

Additional confirmation transactions and long term PPA contracts are in place with a blend of different providers in varying quantities to secure between 48% - 80% of the load requirements from 2024 through 2027. Planning for the future in meeting the Commonwealths goal of carbon free power by 2050, by 2030 ~63% of its future power supply needs qualify as carbon free through long-term contracts in place or being negotiated including solar power, a wind powered turbine facility, several hydroelectric providers, and one nuclear power provider. The energy supply portfolio is reviewed every quarter with our power supply consultant, Energy New England, to review positions and make additional procurement transactions as needed.

The current renewable power supply portfolio mentioned above consists of a blend of 10 MW's of 3rd party owned PV projects at Devens, and several offset sources of wind turbine generated power, hydroelectric power and solar power. This represents ~ 21% of the total current power supply needs of the Devens electric utility supplied from renewable resources.

The Devens Electric Utility System (the "Electric System") is a distribution-only facility that includes five transmission substations which interconnect Devens with the regional transmission system serving New England, as well as electric distribution facilities serving the 4,400-acre area within Devens. Under existing legislation, the Agency, as the Devens Electric Utility Division, has the sole right to supply energy to the customers and residents of Devens. The Electric System's substations are interconnected to the New England regional transmission system through two 69 kilovolt transmission lines which are owned by National Grid Transmission USA to the West Main substation and by the Devens Electric Utility Division from that point on.

The Agency became a full participating member of the ISO New England in 2007 enabling the Agency to purchase wholesale power directly from the New England power grid. As described above, Master Power Supply Agreements are in place with a number of market power supply participants to procure a majority of the utility's future needs depending on forward market pricing and the Devens electric load requirements.

Massachusetts Development Finance Agency
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The cost of power under current arrangements continues to be passed through to the Electric System's customers as part of the Electric System's overall rates and charges. Those rates and charges are reviewed annually and any adjustments to the rates are approved by the Board. Revenues are generated on a per kilowatt hour basis, with rates determined by usage class.

The Agency has also entered into an Operation and Maintenance Agreement (the "O&M Agreement") with the town of Wellesley, Massachusetts, Municipal Light Plant ("WMLP") for the operation and maintenance of the Electric System. The WMLP O&M contract is managed and overseen by the Devens Utilities Manager. The current contract expires June 30, 2024. At that time, the contract may be extended for a 5-year term expiring in 2029 and one final 4-year term expiring in 2033. Services provided by WMLP under the O&M Agreement include (i) system operation, including switching, line loss management, system planning and design specifications and bidding; (ii) meter reading; (iii) system maintenance, including tree trimming, pole transformer maintenance and pole inspection and monitoring; and (iv) substation maintenance, including inspection, maintenance and overhauls. Additional services provided by WMLP under the O&M Agreement include construction of certain capital improvements, outage restoration, operation of supervisory control and data acquisition equipment and compliance with regulatory requirements, among other tasks.

For services rendered under the O&M Agreement, WMLP receives a monthly payment at a fixed base rate subject to annual inflation increases as determined by the Consumer Price Index for Urban Consumers/Boston-Brockton-Nashoba. The Electric System paid \$929,672 and \$906,997 for such services during fiscal years ended June 30, 2023, and 2022, respectively.

The Master Power Supply Agreements noted above are not subject to GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The hedging contracts noted above entered into by the Devens Electric Utility System are considered normal purchases and sales contracts for utilities as part of the ongoing operations of the Devens Electric Utility System and, accordingly, meet the exclusion provided for in GASB No. 53.

Massachusetts Development Finance Agency
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5. Cash, Cash Equivalents and Investments

The following summarizes the cash and cash equivalents of the Devens Electric Utility Division and identifies certain types of investment risk as defined by GASB No. 40, *Deposit, and Investment Risk Disclosures*.

	Carrying Amount/ Fair Value
June 30, 2023	
Cash deposits	<u>\$ 10,084,927</u>
June 30, 2022	
Cash deposits	<u>\$ 7,928,161</u>

The primary objectives of the Agency's investment policy is to ensure preservation of capital, to ensure liquidity of investments to meet current and estimated cash flow needs by investing in instruments with structured maturities that are readily marketable and to provide maximum yield while maintaining safety and liquidity. All cash, cash equivalents and investments are considered restricted for use or restricted for capital use due to the restrictions in the bond documents as to use of funds.

Depository Accounts

	2023	2022
Insured	\$ 536,785	\$ 536,785
Uninsured and uncollateralized	<u>9,548,142</u>	<u>7,391,376</u>
Total cash deposits	<u>\$ 10,084,927</u>	<u>\$ 7,928,161</u>

Custodial Credit Risk-Deposits

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Devens Electric Utility Division's deposits may not be recovered. The Devens Electric Utility Division's cash, cash equivalents and investments are held by reputable financial institutions whose credit has been reviewed by management.

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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Devens Electric Utility Division manages its exposure to interest rate risk by investing operating funds primarily in short-term investments.

Credit Risk

Credit risk is the risk that the Devens Electric Utility Division's investments will be negatively impacted due to a default of the Devens Electric Utility Division's investments. According to the Agency's investment policy, investments must be investment grade and rated no less than A by either Moody's, Standard and Poor's or Fitch.

Concentration of Credit Risk

Concentration of credit risk is assumed to arise when the amount of investments that the Devens Electric Utility Division has with any one issuer exceeds five percent of the total value of the investments. All the Devens Electric Utility Division's investments are held in a guaranteed investment contract (GIC) in accordance with the bond indenture.

The table below presents the Devens Electric Utility Division's investments:

	Carrying Amount/Value
June 30, 2023	
Guaranteed investment contract	\$ 291,485
	<hr/>
June 30, 2022	
Guaranteed investment contract	\$ 294,844
	<hr/>

The GIC matures in fiscal year 2031, carries an investment rating of A and is noted to be the face value of the contract.

The Devens Electric Utility Division's GIC is with a provider who maintains the contributed investments. These amounts are credited with earnings on the underlying investments and charged for withdrawals and expenses. The provider is contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Devens Electric Utility Division. The contract value represents contributions made under the contract, plus earnings, less withdrawals, and administrative expenses. In accordance with GASB No. 72, the fair value of this investment is measured at contract value outside of the fair value hierarchy.

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6. Capital Assets

A summary of changes in capital assets is as follows:

	June 30, 2022	Additions	June 30, 2023
Infrastructure	\$ 28,892,521	\$ 211,991	\$ 29,104,512
Less: accumulated depreciation	<u>(20,784,615)</u>	<u>(1,086,312)</u>	<u>(21,870,927)</u>
Total	<u>\$ 8,107,906</u>	<u>\$ (874,321)</u>	<u>\$ 7,233,585</u>

	June 30, 2021	Additions	June 30, 2022
Infrastructure	\$ 28,769,497	\$ 123,024	\$ 28,892,521
Less: accumulated depreciation	<u>(19,496,720)</u>	<u>(1,287,895)</u>	<u>(20,784,615)</u>
Total	<u>\$ 9,272,777</u>	<u>\$ (1,164,871)</u>	<u>\$ 8,107,906</u>

7. Bonds Payable

Bonds payable consists of the following:

	Interest Rate at June 30, 2023	June 30, 2022	Principal Advanced	(Payments)	June 30, 2023	Current Portion
Devens Electric System Utility Bonds	1.6401%	\$ 4,620,000	\$ -	\$ (485,000)	\$ 4,135,000	\$ 490,000
Bonds payable, net		<u>\$ 4,620,000</u>	<u>\$ -</u>	<u>\$ (485,000)</u>	<u>\$ 4,135,000</u>	<u>\$ 490,000</u>

	Interest Rate at June 30, 2022	June 30, 2021	Principal Advanced	(Payments)/ Amortization	June 30, 2022	Current Portion
Devens Electric System Utility Bonds	1.6401%	\$ 4,855,000	\$ 4,755,000	\$ (4,990,000)	\$ 4,620,000	\$ 485,000
Less: Utility bonds discount		(4,591)	-	4,591	-	-
Bonds payable, net		<u>\$ 4,850,409</u>	<u>\$ 4,755,000</u>	<u>\$ (4,985,409)</u>	<u>\$ 4,620,000</u>	<u>\$ 485,000</u>

During fiscal year 2001, the Agency issued the Series 2001 Bonds for the Devens project which totaled approximately \$10,640,000. The Series 2001 Bonds were used to finance the design, construction, installation, and associated costs of certain capital improvements to the Electric System at Devens and fund reserves for future capital upgrades.

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In an effort to lower the weighted average interest rate on the bonds, the Agency refunded these bonds in December 2011 and issued the Series 2011 Bonds. Principal of \$8,775,000 was repaid in relation to the Series 2001 Bonds and new principal of \$8,145,000 was issued.

The Series 2011 Bonds were collateralized by a pledge of the Electric System's revenues and certain funds and accounts established under the bond. The Series 2011 Bonds carried a long-term Standard & Poor's rating of A. The credit rating was upgraded from A- to A as part of the refunding of the bonds during fiscal year 2012.

In another effort to lower the interest rate on the bonds, the Agency refunded the bonds in September 2021 and issued Devens Electric System Refunding Revenue Bonds, Series 2021 (Series 2021 Bonds). Principal of \$4,855,000 was repaid in relation to the Series 2011 Bonds and new principal of \$4,755,000 was issued.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default, if the Agency complies with specific requirements included in the agreement. As of June 30, 2023, the debt service coverage was met.

The Series 2001 and 2011 Bonds were issued at discounts of \$138,277 and \$22,204, respectively. Amortization of the 2011 discounts for the years ended June 30, 2022, was \$4,591. There was no bond discount for fiscal year 2023.

The bond documents require the maintenance of certain funds by the Devens Electric Utility Division. Below are the funds as of June 30, 2023 and 2022:

- The Revenue Fund had balances of \$6,227,451 and \$3,790,647, respectively, which are included in the current cash and cash equivalents-restricted for use balances, as shown on the statements of net position. All revenues generated by the Electric System, exclusive of interest income, are deposited into the Revenue Fund. Funds are transferred from the Revenue Fund to other funds of the Electric System according to the bond resolution agreement. There were no transfers to the Devens Water Utility Division Program of the Agency during fiscal year 2023.
- The Capital Upgrade Reserve Fund had balances of \$2,528,481 and \$2,841,815, respectively. The Capital Upgrade Reserve Fund may be used to fund capital improvements to the Electric System. If excess funds exist in the Capital Upgrade Reserve Fund, then these excess funds may be used to cover any operating shortfalls. No funds were transferred during fiscal year 2023 to the Capital Upgrade Reserve Fund.

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- The Operating/Rate Stabilization Reserve Fund had balances of \$1,035,600 and \$1,002,515, respectively, which are included in the noncurrent cash and cash equivalents-restricted for use, as shown on the statements of net position. The Operating/Rate Stabilization Reserve Fund may be used to fund operating expenses of the Electric System when there are not sufficient funds available from operations. No funds were transferred in fiscal year 2023.

The Agency may transfer funds from the Capital Upgrade Reserve Fund to the Revenue Fund. Excess balances in the Revenue Fund may be transferred to other utilities, free and clear of the lien of the bond resolution, if all funding requirements are met and the debt service coverage requirement of 1.5 has been met, cumulatively, during the 12 consecutive months prior to the transfer date.

Scheduled principal and estimated interest payments on the Electric System Revenue Bonds (excluding discount) are due as follows for the fiscal years ending June 30:

Fiscal Year	Principal	Interest	Total Debt Service
2024	\$ 490,000	\$ 63,130	\$ 553,130
2025	500,000	54,998	554,998
2026	505,000	46,750	551,750
2027	515,000	38,372	553,372
2028	520,000	29,877	549,877
2029-2031	<u>1,605,000</u>	<u>37,620</u>	<u>1,642,620</u>
	<u>\$ 4,135,000</u>	<u>\$ 270,747</u>	<u>\$ 4,405,747</u>

Interest expense related to these bonds for fiscal years 2023 and 2022 was \$71,133 and \$160,184 respectively.

8. Commitments

The Devens Electric Utility Division uses Master Power Supply Agreements and PPA's to procure necessary power supply requirements from time to time as market and load growth conditions dictate. The Devens Electric Utility Division secured 60% of its 2023 power supply requirements using confirmations in place with NextEra, Shell Energy, Macquarie, and BP Energy. 21% was provided by wind, solar and hydro renewables with the balance of 19% being secured through the ISO-NE Day Ahead and Real Time energy market.

Additional confirmation transactions and long term PPA contracts are in place with a blend of different providers in varying quantities to secure between 48% - 80% of the load requirements from 2024 through 2027. Planning for the future in meeting the

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Commonwealths goal of carbon free power by 2050, by 2030 ~63%of its future power supply needs qualify as carbon free through long-term contracts in place or being negotiated including solar power, a wind powered turbine facility, several hydroelectric providers, and one nuclear power provider. The energy supply portfolio is reviewed every quarter with our power supply consultant, Energy New England, to review positions and make additional procurement transactions as needed.

The current renewable power supply portfolio mentioned above consists of a blend of 10 MW's of 3rd party owned PV projects at Devens, and several offsite sources of wind turbine generated power, hydroelectric power, and solar power. This represents ~ 21% of the total current power supply needs of the Devens electric utility supplied from renewable resources.

The Devens Electric Utility Division has also entered into an Operation and Maintenance Agreement with the Town of Wellesley, MA for the management and operation of the Electric System. The current contract expires June 30, 2024. At that time, the contract may be extended for a 5 year term expiring in 2029 and one final 4 year term expiring in 2033.

9. Legal Matters

The Devens Electric Utility Division is subject to various legal proceedings and claims that arise in the ordinary course of business. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations, or liquidity of the Devens Electric Utility Division.

10. Risk Management

The Agency is exposed to various risks of loss related to general property and casualty losses. Accordingly, the Agency carries general liability and property insurance policies. The Agency also carries insurance coverage for business automobile, workers compensation, director and officer liability, professional liability, cyber liability, crime, and special excess liability. Coverage has not been materially reduced, nor have settled claims exceeded coverage in any of the past three years.

**Massachusetts Development
Finance Agency**
(A Component Unit of the Commonwealth of
Massachusetts)

**Financial Statements issued in accordance
with *Government Auditing Standards***

June 30, 2022

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(A Component Unit of the Commonwealth of Massachusetts)
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RSM US LLP

Independent Auditor's Report

Board Members
Massachusetts Development Finance Agency

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Massachusetts Development Finance Agency (the Agency), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Agency, as of June 30, 2022, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Notes 2 and 11 to the basic financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 87, *Leases*. Accordingly, net position was restated as of July 1, 2021. Our opinions are not modified with respect to this matter

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Agency’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis (located on pages 5 through 18) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The schedule of departmental net position and statements of departmental revenues, expenses and changes in net position (the Statements) (located on page 68) are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The Statements are the responsibility of management and were derived from and relate directly to the underlying accounting records used to prepare the basic financial statements. The Statements have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2022, on our consideration of the Agency'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 Agency'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 Agency's internal control over financial reporting and compliance.

RSM US LLP

Boston, Massachusetts
December 15, 2022

Massachusetts Development Finance Agency

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

I. Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weaknesses identified?	___	Yes	<u>X</u>	No
Significant deficiencies identified?	<u>X</u>	Yes	___	___
Noncompliance material to financial statements noted?	___	Yes	<u>X</u>	No

II. Financial Statement Findings

A. Significant Deficiency in Internal Control

Finding No. 2022-001 – Lack of Preventive Internal Controls

Condition:

During the current year, the Massachusetts Development Finance Agency (the Agency) was subject to a phishing attack. As a result of that attack, a third-party actor (TPA) was able to access the Agency’s email system. The TPA intercepted an internal email and misdirected a payment intended for an MDFA program vendor.

Effect:

As a result of this intrusion, an immaterial amount of money was misdirected to the wrong bank account and misappropriated.

Cause:

The initial intrusion was the result of an individual improperly clicking a link in a malicious email which created the opportunity for the TPA to access the system. Insufficient preventive controls allowed the funds to be misdirected and not detected at the point of the transaction.

Criteria:

Preventive and detective controls should be implemented to mitigate against the risk of this type of event. It should be noted that the detective controls at the Agency identified this issue the day after it occurred. Those controls were functioning as designed.

Recommendation:

A set of complementary preventive controls should be in place to ensure that if such an event were ever to occur in the future, these additional controls would prevent the payment from being made at all.

It should be noted that the Agency was able to fully recover the entire payment. The Agency also implemented proper preventive controls within three months of this event. The Agency has also enhanced its training programs related to phishing attacks and other potential cyber security matters.

Views of Responsible Officials:

Management agrees with this finding and has already implemented preventive internal controls to ensure that this type of event is mitigated in the future.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
June 30, 2022
(unaudited)

As management of the Massachusetts Development Finance Agency (the Agency), we offer the readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2022. This discussion and analysis should be read in conjunction with the accompanying financial statements.

The Agency was created on September 30, 1998 pursuant to Chapter 23G of Massachusetts General Laws (MGL) (Chapter 289 of the Acts of 1998). The Agency is a body corporate and politic and a public instrumentality and was created from the statutory merger of, and is the legal successor in all respects to, two previous existing instrumentalities, the Massachusetts Government Land Bank (created in 1975 under Chapter 212 of the Acts of 1975) and the Massachusetts Industrial Finance Agency (created in 1978 pursuant to Chapter 23A of the MGL) and is the legal successor to the Massachusetts Health and Educational Facilities Authority (created pursuant to Chapter 614 of the Acts of 1968). Other powers of the Agency are also set forth in MGL Chapter 40D (with respect to the issuance of tax-exempt bonds) and Chapter 498 of the Acts of 1993, as amended (with respect to the redevelopment of the former Fort Devens (Devens), a former federal military base).

The purpose of the Agency is to stimulate economic growth, increase employment, eradicate blight, promote prosperity and help build communities throughout the Commonwealth of Massachusetts (Commonwealth). It does this through its powers to:

- Issue tax-exempt bonds for the benefit of certain industrial and commercial entities, educational, health care and housing facilities and public bodies;
- Make loans and provide credit to eligible borrowers in accordance with its public purpose;
- Aid public and private enterprises in the redevelopment of surplus federal and state property and other blighted, open, underdeveloped property and;
- Administer specific statutory programs directed at certain economic development needs in the Commonwealth, such as Emerging Technology Program, Cultural Facilities Program, Military Bond Bill Capital Projects Program, Site Readiness Program, redevelopment of the Belchertown State School, Transformative Development Initiative Program, Brownfield Redevelopment Program, Credit Enhancement of Charter School Facilities Program, Transportation Infrastructure Enhancement Trust Program, Innovation Voucher Program, Community Innovation Infrastructure Program, Underutilized Properties Program and the Massachusetts Export Finance Program.

The Agency is governed by an 11-member Board of Directors, nine of whom are appointed directly by the Governor and two of whom are public officials, or their designees, serving ex officio. The Agency is considered a component unit of the Commonwealth for financial statement reporting purposes.

Using the Financial Statements

The Agency's annual report includes three basic financial statements: the statement of net position, the statement of revenues, expenses and changes in net position and the statement of cash flows. The basic financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). The Agency's financial statements are reported as a special purpose business type entity.

The statement of net position reports assets, liabilities and deferred inflows of resources and the difference between them as net position. Net position represents the residual interest in the Agency's assets, plus deferred outflows of resources after liabilities, less deferred inflows of resources and consists of three sections: net investment in capital assets; restricted and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. The Agency's restricted net position is expendable. All other net position is unrestricted.

Revenues and expenses are categorized as either operating or non-operating based upon management's definition of the Agency's principal ongoing operations.

In 2022, the Agency adopted GASB Statement No. 87, *Leases* (GASB No. 87) and restated its 2021 financial statements to reflect the requirements of GASB No. 87 as of July 1, 2020. See Notes 1 and 11 for additional information. The adoption of GASB No. 87 increased lease receivable, leased assets, net, deferred inflows of resources and net position by \$12.5 million, \$4.3 million, \$12.2 million and \$0.1 million, respectively, as of June 30, 2021.

Statements of Net Position**As Restated ***

	June 30, 2022	June 30, 2021
Assets		
Current assets	\$ 266,056,125	\$ 265,746,229
Noncurrent assets	183,965,260	175,807,120
Leased assets (net of accumulated depreciation)	2,993,889	4,252,203
Assets held for sale	15,766,037	12,200,516
Capital assets (net of accumulated depreciation)	78,802,889	74,961,691
Total assets	<u>547,584,200</u>	<u>532,967,759</u>
Liabilities		
Current liabilities	51,288,868	43,852,843
Noncurrent liabilities	55,482,072	40,499,574
Total liabilities	<u>106,770,940</u>	<u>84,352,417</u>
Deferred Inflows of Resources		
Total liabilities and deferred inflows of resources	<u>10,244,060</u>	<u>12,213,657</u>
	<u>117,015,000</u>	<u>96,566,074</u>
Net Position		
Net investment in capital assets	81,692,968	79,588,941
Restricted	191,684,538	176,169,355
Unrestricted	157,191,694	180,643,389
Total net position	<u>430,569,200</u>	<u>436,401,685</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 547,584,200</u>	<u>\$ 532,967,759</u>

* Balances and net position for 2021 were restated for the adoption of GASB No. 87.

Assets

The Agency's current assets mainly consist of cash and cash equivalents, short-term investments, current portion of loans receivable, current portion of lease receivable, interest receivable and accounts receivable and other assets. The Agency's noncurrent assets mainly consist of long-term cash and cash equivalents and investments, investment in joint ventures, net loans receivable and lease receivable.

Current assets increased by \$0.3 million from 2021 to 2022 mainly due to a combination of increases in cash and cash equivalents – restricted for use, offset by decreases in investments, amounts due from the Commonwealth for grant reimbursements or capital programs and the investment in the Small Business Recovery Loan Fund.

Noncurrent assets increased by \$8.2 million from 2021 to 2022 mainly due to a combination of increases in cash and cash equivalents - restricted for capital use, loans receivable and capital assets, net, offset by decreases in investments, lease receivable and leased assets, net.

The Agency's operating cash accounts are held with TD Bank, N.A. The majority of the Devens Electric System Utility bond proceeds are held with the trustee at U.S. Bank. The Agency's investments are held with PFM Asset Management LLC (PFM) as the Agency's investment advisor. The Agency's cash, cash equivalents and investments are recorded at fair value and consist of guaranteed investment contracts, certificates of deposit, demand deposits, money market mutual funds, Short-Term Asset Reserve Fund (STAR Fund), and corporate and government obligations.

The Agency is the administrator of the STAR Fund. The STAR Fund is a fiduciary investment fund that is managed like a money market fund, invests in short-term, high-quality securities and is available for the investment of bond proceeds of the Agency's client institutions. PFM is the STAR Fund's investment advisor. The STAR Fund is designed to preserve principal, provide daily liquidity and earn a reasonable rate of return. The Agency's holdings in the STAR Fund on the statements of net position as of June 30, 2022 and 2021, were approximately \$112.3 million and \$74.5 million, respectively.

Loans receivable consist of loans issued by the Agency (net of the allowance for loan loss) primarily for the following economic development program types:

- Business loans
- Construction loans
- Permanent real estate loans
- Equipment loans
- Development loans
- Emerging technology loans
- Brownfields redevelopment loans
- Export financing

As of June 30, 2022 and 2021, there were \$102.5 million and \$88.4 million, respectively, of net loans receivable.

Net loans receivable increased \$14.1 million from 2021 to 2022 due to more loan disbursements as compared to loan repayments during the fiscal year. The total loan disbursements were approximately \$37.2 million as compared to \$21.2 million of loan repayments, mainly within the General Operations Program and the Emerging Technology Program.

Lease receivable consist of long-term leases in which the Agency is the lessor of buildings and land in Devens, MA and Springfield, MA. In accordance with GASB No. 87, the lease receivable is measured at the present value of lease payments expected to be received during the lease terms. As of June 30, 2022 and 2021, there were \$10.6 million and \$12.5 million, respectively, of lease receivable. The decrease from 2021 to 2022 was due to lease payments received during the fiscal year. See Note 11 to the financial statements for more information on lease receivable.

Investment in joint ventures includes the Agency's equity investments in the Commonwealth Fund III LLC and 10 New Markets Tax Credit (NMTC) entities as of June 30, 2022. The increase of approximately \$0.7 million from 2021 to 2022 was mainly due to \$0.4 million share of income and \$0.3 million of distributions for all investments for the fiscal year.

During fiscal year 2020, the Agency remitted \$10.0 million to the Massachusetts Growth Capital Corporation's (MGCC) Small Business Recovery Loan Fund to assist small businesses impacted by the COVID-19 pandemic. As of June 30, 2021, the net invested balance was \$8.1 million. The Agency received \$963,313 during fiscal year 2021 from loan repayments and the loss provision was reduced to \$1.0 million. The Agency received the \$8.1 million from MGCC on August 26, 2021.

Accounts receivable and other assets include outstanding amounts at year-end related to utility usage at Devens, grants, NMTC management fees and reimbursement of expenses, Devens operating fees, prepaid insurance and other miscellaneous receivables. The changes from 2021 to 2022 were mainly related to outstanding payments for Devens real estate taxes, offset by decreases in prepaid expenses.

Due from the Commonwealth represents amounts owed to the Agency from the Commonwealth for grant reimbursements or capital activity at year-end. The decrease of \$8.3 million from 2021 to 2022 was mainly related to fewer outstanding grant reimbursements at year-end mainly for the Cultural Facilities Program.

Current assets held for sale of \$6.4 million and \$2.9 million as of June 30, 2022 and 2021, respectively, relate to property that is actively being marketed for sale by the Agency that is expected to be sold within the following fiscal year. This mainly includes property in Springfield, MA and Worcester, MA.

Noncurrent assets held for sale of \$9.4 million and \$9.3 million as of June 30, 2022 and 2021, respectively, relate mainly to the Taunton Development Corporation (TDC) capital assets and property that is actively being marketed for sale by the Agency that is expected to be sold greater than one year from the fiscal year-end. In January 2012, the Agency, in partnership with TDC, purchased from the Commonwealth the former Dever State School core campus in Taunton, Massachusetts. The property consisted of approximately 220 acres with approximately 40 dilapidated buildings and underground tunnels. A new nonprofit corporation was formed to take title and redevelop the property. Redevelopment of the property includes expansion of the existing 150 acres of the Myles Standish Industrial Park and development of a life science park including a training/education center.

Leased assets relate to office space and equipment in which the Agency has entered into long term leases. In accordance with GASB No. 87, the leased asset value is comprised of the lease liability, less any lease incentives received from the lessor, plus initial direct costs related to the leased asset. The decrease of \$1.3 million from 2021 to 2022 is related to depreciation expense during the fiscal year. See Note 11 to the financial statements for more information on leased assets.

Capital assets mainly relate to land, infrastructure and improvements and equipment assets for Agency operations in Devens, Boston and Springfield, Massachusetts. The increase of \$3.8 million from 2021 to 2022 was mainly due to the combination of increased additions to the Devens Water Utility Division, offset by reclassifying the building in Springfield, MA to assets held for sale due to it being marketed for sale and \$7.2 million of depreciation expense during the fiscal year. See Note 10 to the financial statements for more information on capital assets.

Liabilities

The Agency's current liabilities consist of accounts payable and accrued expenses, current portions of bonds payable, advances from the Commonwealth and lease liability, accrued interest payable and other current liabilities. Noncurrent liabilities consist of long term portion of bonds payable, advances from the Commonwealth and lease liability and other noncurrent liabilities.

Current liabilities increased \$7.4 million from 2021 to 2022 mainly due to increased deferred advances received from the Commonwealth for future grant awards or capital projects.

Noncurrent liabilities increased \$15.0 million from 2021 to 2022 mainly due to the combination of a new loan advance related to new water treatment plants at Devens and increased deferred advances received from the Commonwealth for future grant awards or capital projects.

Devens Electric System Utility Bond

Bonds payable consist of the following at the years ended of June 30:

	2022	2021
Devens Electric System Utility Bonds	\$ 4,620,000	\$ 4,855,000
Net discount	-	(4,591)
	<u>\$ 4,620,000</u>	<u>\$ 4,850,409</u>

Bonds payable decreased \$0.2 million from 2021 to 2022 due to the refinance and principal payments of the Devens Electric System Utility bonds during the fiscal year.

During fiscal year 2001, the Agency issued the Devens Electric System Revenue Bonds (Series 2001 Bonds) for the Devens project which totaled \$10.6 million. The Agency acquired the electric transmission and distribution facilities (Electric System) serving Devens from the Army in 1996. The Electric System includes four transmission substations that interconnect Devens with the regional transmission system serving New England, as well as electric distribution facilities serving the area within Devens. The Series 2001 Bonds were used to finance the design, construction, installation and associated costs of certain capital improvements to the Electric System at Devens.

In an effort to lower the weighted average interest rate on the bonds, the Agency refunded the Series 2001 Bonds in December 2011 and issued the Devens Electric System Refunding Revenue Bonds, Series 2011 (Series 2011 Bonds). Principal of \$8,775,000 was repaid in relation to the Series 2001 Bonds and new principal of \$8,145,000 was issued. In an additional effort to lower the interest rate on the bonds, the Agency refunded the Series 2011 Bonds and issued the Devens Electric System Refunding Revenue Bonds, Series 2021 (Series 2021 Bonds). Principal of \$4,855,000 was repaid in relation to the Series 2011 Bonds and new principal of \$4,755,000 was issued.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default as long as the Agency complies with specific requirements included in the agreement. As of June 30, 2022, the debt service coverage was not met. The Agency, as allowed in the bond documents, will utilize the cure period and increased rates in April 2022 and will have further rate increases during fiscal year 2023. As of June 30, 2021, the necessary debt service coverage was met.

See Note 13 to the financial statements for more information on bonds payable.

Advances from the Commonwealth

Advances from the Commonwealth consist of the following for the years ended June 30:

	2022	2021
Massachusetts Department of Environmental Protection-wastewater	\$ 6,198,069	\$ 6,794,862
Premium	2,578	3,768
Massachusetts Department of Environmental Protection-water	<u>4,855,759</u>	<u>-</u>
	<u>\$ 11,056,406</u>	<u>\$ 6,798,630</u>

Massachusetts Department of Environmental Protection

In 2001 and 2004, the Massachusetts Department of Environmental Protection (DEP) approved loans to the Agency to construct a wastewater treatment facility at Devens. In addition, The Massachusetts Water Abatement Trust currently known as The Massachusetts Clean Water Trust (MCWT), issued loans to the Agency. These loans will be paid back to the trust through revenues generated from processing of wastewater from Devens and surrounding communities. The Agency and the Commonwealth have entered into a contract providing that the Commonwealth shall pay contract assistance on behalf of the Agency with respect to partial debt service on this loan.

The MCWT loan agreement requires the maintenance of an adequate annual debt service coverage ratio. As of June 30, 2022 and 2021, the necessary debt service coverage was met.

In 2022, the DEP approved another loan to the Agency to construct two water treatment plants at Devens for iron and manganese removal and per- and polyfluoroalkyl substances (PFAS) treatment for existing Devens wells. The MCWT issued this loan to the Agency. The loan will be paid back to the trust through revenues generated from the sale of water in Devens and to surrounding communities.

See Note 14 to the financial statements for more information on Advances from the Commonwealth.

Lease Liability

Lease liability consist of leases in which the Agency is the lessee of office space or equipment. In accordance with GASB No. 87, the lease liability is measured at the present value of lease payments expected to be paid during the lease terms. As of June 30, 2022 and 2021, there were \$3.7 million and \$5.2 million, respectively, of lease liability. The decrease from 2021 to 2022 is due to payments on leases made during the fiscal year. See Note 11 to the financial statements for more information on lease liability.

Deferred Inflows of Resources

In accordance with GASB No. 87, the Agency reported \$10.2 million and \$12.2 million deferred inflows of resources as of June 30, 2022 and 2021, respectively. This represents the deferral of expected future receipts related to lease receivables

Net Position

Net position represents the residual interest in the Agency's assets plus deferred outflows of resources after all liabilities plus deferred inflows of resources are deducted. The Agency's net position was as follows at June 30:

	2022	As Restated 2021
Net investment in capital assets	\$ 81,692,968	\$ 79,588,941
Restricted	191,684,538	176,169,355
Unrestricted	157,191,694	180,643,389
	<u>\$ 430,569,200</u>	<u>\$ 436,401,685</u>

Net position decreased by \$5.8 million from 2021 to 2022 mainly due to a combination of a \$11.4 million operating loss, \$27.4 million of grant award disbursements and \$3.6 million investment income loss, offset by a \$34.5 million contribution from the Commonwealth and \$2.4 million in capital grant revenue.

Revenues and Expenses

	2022	As Restated 2021
Operating revenues	\$ 66,818,326	\$ 61,366,404
Operating expenses	<u>(78,240,292)</u>	<u>(76,427,755)</u>
Operating loss	(11,421,966)	(15,061,351)
Nonoperating (expenses) revenues, net	(3,974,187)	6,328,113
Capital contributions, net	<u>9,563,668</u>	<u>13,373,948</u>
(Decrease) increase in net position	<u>\$ (5,832,485)</u>	<u>\$ 4,640,710</u>

Operating Revenues

	2022	As Restated 2021
Devens operating revenue	\$ 44,721,232	\$ 41,018,072
Interest and other loan income	5,904,593	5,278,172
Interest income - leased assets	431,038	487,603
Bond issuance and New Markets Tax Credit fees	7,048,993	6,613,649
Lease income	3,384,295	3,181,262
Other	1,713,053	3,963,155
Gain on share of joint ventures	379,947	670,980
Gain on sale of real estate, net	<u>3,235,175</u>	<u>153,511</u>
	<u>\$ 66,818,326</u>	<u>\$ 61,366,404</u>

Operating revenues increased by \$5.5 million from 2021 to 2022 mainly due to increases of \$3.7 million in Devens operating revenue and \$2.8 million gain on sale of real estate and gain on share of joint ventures, net, offset by a \$2.3 million decrease in other revenues.

Devens operating revenue, which includes utility income and real estate taxes, are an important component of the Agency's operating revenue. The Agency owns the utility systems at Devens and provides electricity, natural gas, water and sewer services to the Devens community. The utility staff works in conjunction with operations and maintenance contractors to maintain, upgrade and expand the utility systems. The current systems consist of five transmission substations, approximately 73 miles of distribution power lines, three miles of transmission power lines, three active drinking water wells and pumping stations, approximately 50 miles of water line, 32 miles of natural gas pipeline, a wastewater treatment facility, six sewer lift stations and 50 miles of sewer. Devens operating revenue increased by \$3.7 million from 2021 to 2022 mainly due to increased real estate tax revenue due to new growth and increased assessed values and increased gas and wastewater income due to increased usage.

Interest and other loan income represents income related to outstanding loans issued by the Agency. The increase of \$0.6 million from 2021 to 2022 is mainly due to increased interest income on loans due to increased loan disbursements.

Interest income-leased assets represents interest earned on outstanding lease receivable. In accordance with GASB No. 87, a portion of lease payment received is recognized as interest income as future lease payments to be received are discounted using an implicit borrowing rate.

Bond issuance fees and NMTC fees represent revenue generated by the Agency as a conduit issuer of taxable and tax-exempt bonds or fees related to the allocation of federal NMTCs. The increase of \$0.4 million from 2021 to 2022 mainly consists of increased bond issuance fees due to increased bond financing amounts for housing and nonprofit 501(c)3 entities in fiscal year 2022.

Lease income represents revenue generated by tenant leases in Devens and Springfield, Massachusetts. The increase from 2021 to 2022 was insignificant.

Other operating income mainly consists of real estate advisory service fees and other miscellaneous operating revenues. The decrease of \$2.3 million from 2021 to 2022 was mainly due to a \$1.5 million distribution of sales proceeds from Hospital Hill LLC to the Agency during fiscal year 2021 and a \$1.5 million receipt from the town of Taunton for demolition and remediation cost reimbursements to TDC during fiscal year 2021.

The gain on share of joint ventures represents the Agency's share of operating gains on the Agency's joint ventures. The gain on share of joint ventures in 2022 and 2021 was mainly related to gain on the Commonwealth Fund III LLC investment in both fiscal years.

The gain on sale of real estate, net of \$3.2 million in fiscal year 2022, was due to the recognition of gains on sale of properties sold in previous fiscal years for which the recognition of the sales had been deferred due to repurchase and future commitment agreements. The deferred sales had gross proceeds of \$4.0 million, offset by \$0.8 million cost of sale, for a net gain of \$3.2 million. The fiscal year 2021 sales had minimal gross proceeds thus minimal gains on sale.

Operating Expenses

	2022	As Restated 2021
Salaries and related employee expenses	\$ 22,532,793	\$ 22,614,358
Property, maintenance and utilities	35,019,498	30,294,363
General and administrative	2,799,624	2,715,878
Project and professional expenses	7,221,307	10,571,101
Provision for loan loss	1,838,959	1,073,529
Provision for Predevelopment and Brownfield receivables	295,714	4,515,484
Recovery for Small Business Recovery Loan Fund	-	(4,077,343)
Depreciation - capital assets	7,230,345	7,412,894
Depreciation - leased assets	1,302,052	1,307,491
	<u>\$ 78,240,292</u>	<u>\$ 76,427,755</u>

Operating expenses increased by \$1.8 million from 2021 to 2022 mainly due to the combination of increased property, maintenance and utilities expenses and the removal of provision on the Small Business Recovery Loan Fund, offset by decreased project expenses, provision for Predevelopment and Brownfield receivables and depreciation for capital assets.

Salaries and related employee expenses were consistent from 2021 to 2022.

Property, maintenance and utilities expenses increased by \$4.7 million from 2021 to 2022. The increase was mainly due to increased electric utility purchases due to increased power supply cost during the fiscal year.

General and administrative expenses were consistent from 2021 to 2022.

Project and professional project expenses decreased by \$3.3 million from 2021 to 2022 mainly due to decreased project expenses during the fiscal year related to the Transportation Infrastructure Enhancement Trust Program to assist taxicab, livery and hackney businesses and to the Belchertown State School project.

Provision for loan loss represents the expense necessary to maintain an adequate allowance for loan losses. The provision increased in fiscal year 2022 due to increased loan disbursements for the General Operations Program and the Emerging Technology Program.

Provision for Predevelopment and Brownfield receivables represents the allowance necessary to absorb probable losses of existing awards that are expected to become uncollectible. The provision decreased by \$4.2 million from 2021 to 2022 due to fewer disbursements during the fiscal year.

Recovery for Small Business Recovery Loan Fund represents the allowance necessary to absorb probable losses on the invested funds. Original projections related to the fund as of June 30, 2020 demonstrated that it was not probable that the current invested balance would be recoverable from distributions from future loan repayments due to the nature of the unsecured high-risk loans that MGCC provided to small businesses. Therefore, the Agency recognized a \$5.0 million provision loss in fiscal year 2020 to write down the amount expected to be recovered through its net cash flow from the fund. As of June 30, 2021, the Agency had updated information from MGCC and expected to receive \$8.1

million from loan repayments as the Small Business Recovery Loan Fund is closed out. Therefore, there was a recovery provision of \$4.1 million during fiscal year 2021 to bring the amount expected to be recovered to \$8.1 million. The Agency received the \$8.1 million from MGCC on August 26, 2021.

Depreciation-capital assets was consistent from 2021 to 2022.

Depreciation-leased assets was consistent from 2021 to 2022.

Non-operating Revenues (Expenses)

	2022	2021
Investment income	\$ (3,584,144)	\$ 6,707,766
Contract assistance	362,626	346,443
Interest expense	(471,058)	(523,032)
Interest expense - leased assets	(152,038)	(202,107)
Financing costs and amortization of bond discount, net	(129,573)	(957)
	<u>\$ (3,974,187)</u>	<u>\$ 6,328,113</u>

Non-operating revenues (expenses) consist mainly of investment income, contract assistance, interest expense, financing costs and other. The decrease of \$10.3 million from 2021 to 2022 is mainly related to decreased investment income. Investment income decreased \$10.3 million from 2021 to 2022 mainly due to decreased average investment balances and unrealized losses on investments due to rising interest rates occurring during the second half of the fiscal year.

Contract assistance represents the debt service for the MCWT loan to build a wastewater treatment plant at Devens. The debt services payments are made by the Commonwealth directly and are recognized as non-operating income by the Agency.

Interest expense of \$0.5 million was recognized in both 2022 and 2021. Interest expense includes interest for the Electric System Utility bonds issued for the acquisition of the electric transmission and distribution facility at Devens and the MCWT loan for the construction of the wastewater treatment facility at Devens.

Interest expense-leased assets of \$0.2 million was recognized in both 2022 and 2021. Interest expense-leased assets includes interest paid for leases in which the Agency is the lessee for office space or equipment.

Financing costs and amortization of bond discount, net represents the costs associated with the refinancing of the Electric System Utility bonds during the fiscal year and amortization of the discount for the Electric System Utility bonds over the term of the related bonds. The Electric System Utility bond was refinanced during the fiscal year and the remaining bond discount was fully amortized. See Note 13 to the financial statements for more information on bonds payable and the refinancing.

Capital Contribution

	2022	2021
Contributions from the Commonwealth of Massachusetts	\$ 34,541,421	\$ 30,538,976
Capital grant revenue	2,443,599	5,961,473
Predevelopment and Brownfield awards	(2,210,728)	-
Cultural Facilities grant awards	(8,156,509)	(9,056,713)
Military Bond Bill grant awards	(3,822,662)	(1,710,485)
Underutilized Properties grant awards	(1,229,236)	-
Worcester Business Development Corporation grant award	-	(532,039)
Transformative Development Initiative grant awards	(1,675,942)	(1,550,957)
Transportation Infrastructure Enhancement Trust grant awards	(57,397)	(3,988,236)
Innovation Voucher grant awards	(1,623,063)	(2,847,475)
Community Innovation Infrastructure grant awards	(994,300)	(1,129,708)
Other grant awards	(7,651,515)	(2,310,888)
	<u>\$ 9,563,668</u>	<u>\$ 13,373,948</u>

Capital contributions decreased \$3.8 million from 2021 to 2022 mainly due to the combination of increased recognition of contributions from the Commonwealth, offset by decreased capital grant revenue and increased grant awards during the fiscal year.

Contributions from the Commonwealth of \$34.5 million and \$30.5 million, were recognized in fiscal years 2022 and 2021, respectively. The fiscal year 2022 amounts mainly include \$9.0 million for the Cultural Facilities Program, \$12.6 million for the General Fund Program, \$3.8 million for the Military Bond Bill Program, \$1.9 million for the Site Readiness Program and \$1.7 million for the Underutilized Properties Program. The fiscal year 2021 amounts mainly include \$9.8 million for the Cultural Facilities Program, \$7.7 million for the Transportation Infrastructure Enhancement Trust Program, \$2.9 million for the Brownfield Capital Program and \$2.6 million for the Innovation Voucher Program.

Capital grant revenue of approximately \$2.4 million, and \$6.0 million was recognized in fiscal years 2022 and 2021, respectively. The fiscal year 2022 amount was mainly related to \$0.7 million for the CARES Act Revolving Loan Fund program to help alleviate severe economic dislocation caused by the coronavirus pandemic, \$0.7 million for the Transformative Development Initiative program to assist with redevelopment of the Gateway cities and \$0.7 million to assist with funding an outdoor event space in historic downtown Lowell, MA historic district. The fiscal year 2021 amount was mainly related to \$2.5 million for the Credit Enhancement of Charter School Facilities guarantee program due to the issuance of new guarantees during the fiscal year and \$2.4 million for the CARES Act Revolving Loan Fund program.

The Agency disbursed \$8.2 million and \$9.1 million in fiscal years 2022 and 2021, respectively, to various recipients in support of acquisition, design, construction, repair, renovation, rehabilitation or capital improvements or deferred maintenance of a cultural facility.

The Agency disbursed \$3.8 million and \$1.7 million in fiscal years 2022 and 2021, respectively, to various recipients in support of military installation development projects across the Commonwealth.

The Agency disbursed \$1.2 million in fiscal year 2022 to various recipients in support of projects that will improve, rehabilitate or redevelop lighted, abandoned, vacant or underutilized properties to achieve the public purposes of eliminating blight, increasing housing production, supporting economic development projects and increasing the number of commercial buildings accessible to persons with disabilities.

The Agency disbursed \$1.7 million and \$1.6 million in fiscal years 2022 and 2021, respectively, to various recipients in support of the redevelopment of Gateway cities in the Commonwealth.

The Agency disbursed \$0.0 million and \$4.0 million in fiscal years 2022 and 2021, respectively, to various recipients in support of providing financial assistance to small businesses operating in the taxicab, livery or hackney industries to promote the adoption of new technologies and support workforce development.

The Agency disbursed \$1.6 million and \$2.8 million in fiscal years 2022 and 2021, respectively, to various recipients in support of providing a voucher program to small corporations and start-up companies for sharing the use of core facilities at the University of Massachusetts.

The Agency disbursed \$1.0 million and \$1.1 million in fiscal years 2022 and 2021, respectively, to various recipients in support of providing grants to businesses to plan and study the feasibility of new collaborative workspaces, building improvements and equipment purchases.

The Agency disbursed \$7.7 million and \$2.3 million in fiscal years 2022 and 2021, respectively to various recipients in support of various projects throughout the Commonwealth.

Fiduciary Activities

Fiduciary activities are used to account for resources held for the benefit of parties outside of the Agency. These activities are excluded from the financial statements of the Agency because the resources of these funds are restricted and cannot be used to finance the Agency's operations and are for the benefit of other organizations. The fiduciary activities of the Agency include a fiduciary investment fund, the STAR Fund, for which the Agency serves as the administrator. The STAR Fund is managed like a money market fund, invests in short-term, high-quality securities and is available for the investment of bond proceeds of the Agency's client institutions. PFM Asset Management LLC is the STAR Fund's investment advisor. The STAR Fund's financial statements are reported on a December 1 calendar year-end.

The fiduciary activities are reported in the statement of fiduciary net position and the statement of changes in fiduciary net position.

- The **statement of fiduciary net position** presents a point-in-time snapshot of the financial position of the STAR Fund and includes all assets and liabilities of the STAR Fund.
- The **statement of changes in fiduciary net position** presents the activity of the STAR Fund for the year ended. Major sources of additions include investment income, realized gain on sale of investments and capital shares issued. Major sources of deductions include expenses (investment advisory fees and administrative fees) and capital shares redeemed.

Requests for Information

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, Massachusetts Development Finance Agency, 99 High Street, 11th Floor, Boston, MA, 02110.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Net Position
June 30, 2022

Assets

Current assets

Cash and cash equivalents	\$ 24,901,167
Cash and cash equivalents - restricted for use	134,773,508
Investments	80,670,933
Loans receivable, net	11,677,070
Lease receivable	1,324,731
Interest receivable	498,166
Accounts receivable and other assets (net of allowance of \$478,450 at June 30, 2022)	8,222,565
Due from the Commonwealth of Massachusetts	1,689,021
Small Business Recovery Loan Fund (net of allowance of \$1,027,657 as of June 30, 2021)	-
Project escrow deposits	2,298,964
Assets held for sale	6,402,318
Total current assets	<u>272,458,443</u>

Noncurrent assets

Cash and cash equivalents - restricted for capital use	27,409,082
Cash and cash equivalents - restricted for use	1,957,664
Investments	47,605,324
Investment in joint ventures	6,414,359
Loans receivable (net of allowance of \$12,694,141 at June 30, 2022)	90,850,908
Lease receivable	9,322,015
Predevelopment and Brownfield receivables (net of allowance of \$9,537,181 at June 30, 2022)	405,908
Assets held for sale	9,363,719
Leased assets, net	2,993,889
Capital assets, net	78,802,889
Total noncurrent assets	<u>275,125,757</u>
Total assets	<u>\$ 547,584,200</u>

Liabilities, Deferred Inflows of Resources and Net Position

Current liabilities

Accounts payable and accrued expenses	\$ 11,428,091
Current portion of bonds payable	485,000
Advances from the Commonwealth of Massachusetts	617,541
Lease liability	1,281,388
Accrued interest payable	193,442
Project escrow payable	2,523,217
Deferred revenue and other liabilities	34,760,189
Total current liabilities	<u>51,288,868</u>

Noncurrent liabilities

Bonds payable	4,135,000
Advances from the Commonwealth of Massachusetts	10,438,865
Lease liability	2,428,330
Deferred revenue and other liabilities	38,479,877
Total noncurrent liabilities	<u>55,482,072</u>
Total liabilities	<u>106,770,940</u>

Deferred inflows of resources

Leases deferred inflows of resources	10,244,060
Total deferred inflows of resources	<u>10,244,060</u>

Net position

Net investment in leased and capital assets	81,692,968
Restricted	191,684,538
Unrestricted	157,191,694
Total net position	<u>430,569,200</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 547,584,200</u>

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2022

Revenues

Operating revenues	
Devens operating revenue	\$ 44,721,232
Interest and other loan income	5,904,593
Interest income - leased assets	431,038
Bond issuance and New Markets Tax Credit fees	7,048,993
Lease income	3,384,295
Other	1,713,053
Gain on sale of real estate, net	3,235,175
Gain on share of joint ventures	379,947
Total operating revenues	<u>66,818,326</u>

Expenses

Operating expenses	
Salaries and related employee expenses	22,532,793
Property, maintenance and utilities	35,019,498
General and administrative	2,799,624
Project and professional expenses	7,221,307
Provision for loan loss	1,838,959
Provision for Predevelopment and Brownfield receivables	295,714
Depreciation - capital assets	7,230,345
Depreciation - leased assets	1,302,052
Total operating expenses	<u>78,240,292</u>
Operating loss	(11,421,966)

Nonoperating revenues (expenses)

Investment income	(3,584,144)
Contract assistance	362,626
Interest expense	(471,058)
Interest expense - leased assets	(152,038)
Financing costs and amortization of bond discount, net	(129,573)
Nonoperating expenses, net	<u>(3,974,187)</u>
Loss before capital contributions (distributions)	(15,396,153)

Capital contributions (distributions)

Contributions from the Commonwealth of Massachusetts	34,541,421
Capital grant revenue	2,443,599
Predevelopment and Brownfield grant awards	(2,210,728)
Cultural Facilities grant awards	(8,156,509)
Military Bond Bill grant awards	(3,822,662)
Underutilized Properties grant awards	(1,229,236)
Transformative Development Initiative grant awards	(1,675,942)
Transportation Infrastructure Enhancement Trust grant awards	(57,397)
Innovation Voucher grant awards	(1,623,063)
Community Innovation Infrastructure grant awards	(994,300)
Other capital grant awards	(7,651,515)
Total capital contributions net	<u>9,563,668</u>
Decrease in net position	(5,832,485)

Net position

Net position - beginning of year	<u>436,401,685</u>
Net position - end of year	<u>\$ 430,569,200</u>

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Cash Flows
Year Ended June 30, 2022

	2022
Cash flows from operating activities	
Receipts from interest on loans	\$ 5,829,503
Receipts from Devens operating income	43,638,162
Receipts from bond issuance fees	7,039,607
Receipts from other operating income	1,692,200
Receipts from other lease income	1,320,793
Payment of salaries and related employees expenses	(22,544,797)
Payment of property, maintenance and utilities expenses	(34,845,479)
Payment of general and administration expenses	(2,567,618)
Payment of project and professional expenses	(7,513,249)
Project escrows, draws	(26,324)
Project escrows, deposits	35,236
Net cash used in operating activities	<u>(7,941,966)</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	(15,021,577)
Principal payments on debt obligations	(5,437,581)
Principal advances on debt obligations	9,610,759
Payment of financing costs	(124,982)
Proceeds from sale of capital assets	2,765,549
Receipts from capital grants	2,602,500
Payment of Predevelopment and Brownfield grant awards	(2,109,312)
Payment of Cultural Facilities grant awards	(8,454,602)
Payment of Military Bond Bill grant awards	(4,299,022)
Payment of Worcester Business Development Corporation grant award	-
Payment of Transformative Development Initiative grant awards	(1,433,715)
Payment of Transportation Infrastructure Enhancement Trust grant awards	(312,325)
Payment of Innovation Voucher grant awards	(2,273,063)
Payment of Community Innovation Infrastructure grant awards	(1,134,847)
Payment of other capital grants	(7,984,982)
Payment of Underutilized Property grant awards	(1,166,565)
Receipts of contributions from the Commonwealth of Massachusetts	65,817,695
Receipts from lease income	1,857,012
Receipts from interest on leases	438,668
Payments on lease liability	(1,493,673)
Payments on lease accrued interest payable	(156,180)
Payment of interest	(260,092)
Net cash provided by capital and related financing activities	<u>31,429,665</u>
Cash flows from investing activities	
Purchases of investments	(131,969,072)
Sales of investments	163,937,285
Investments in joint venture	(297,167)
Distributions from joint ventures	172
Distribution from Small Business Recovery Loan Fund	8,114,030
Disbursements of loans	(37,154,849)
Collections and recoveries of loans	21,209,835
Payment of Predevelopment and Brownfield receivables	297,315
Advance of Predevelopment and Brownfield receivables	(104,545)
Receipts of investment income	2,262,070
Net cash provided by investing activities	<u>26,295,074</u>
Net increase in cash and cash equivalents	49,782,773
Cash and cash equivalents at beginning of year	<u>139,258,648</u>
Cash and cash equivalents at end of year	<u>\$ 189,041,421</u>
Supplemental disclosure of noncash activity:	
Contract assistance	\$ 362,626
Contributions from the Commonwealth of Massachusetts	23,026,823
Capital grant revenue	(7,500)
Interest expense	213,414
Grant awards	(1,137,914)
Unrealized gain on investments	(5,587,248)
Capital additions included in accounts payable and accrued expenses	1,326,421

(continued)

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Cash Flows
Year Ended June 30, 2022

Cash flows from operating activities

Operating loss \$ (11,421,966)

Adjustments to reconcile operating loss to net cash used in operating activities:

Bad debt	58,044
Lease income	(2,019,761)
Interest income-leases	(438,668)
Depreciation and amortization	8,532,397
Gain on sale of real estate, net	(3,235,175)
Provision for loan loss	1,838,959
Provision for Predevelopment and Brownfield receivables	295,714
Gain on share of joint ventures	(379,947)

Changes in assets and liabilities:

Project escrows assets	(26,324)
Interest receivable	(9,388)
Accounts receivable and other assets	(540,373)
Accounts payable and accrued expenses	(443,754)
Project escrow payable	35,236
Other liabilities	<u>(186,960)</u>

Total adjustments 3,480,000

Net cash used in operating activities \$ (7,941,966)

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Fiduciary Net Position – Short-Term Asset Reserve Fund
December 31, 2021

Assets

Investments	\$ 248,100,853
Cash and cash equivalents	71,893
Interest receivable	350,788
Subscriptions receivable	4,270
Total assets	<u>248,527,804</u>

Liabilities

Management fees payable	17,608
Administration fees payable	9,023
Audit fees payable	29,980
Other accrued expenses	11,978
Total liabilities	<u>68,589</u>

Net position restricted for pool participants	<u><u>\$ 248,459,215</u></u>
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The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Statement of Changes in Fiduciary Net Position – Short-Term Asset Reserve Fund
Year Ended December 31, 2021

Revenues	
Investment income	\$ 452,875
Expenses	
Investment management fees	351,230
Administration fees	132,221
Audit fees	29,425
Other expenses	3,699
Total expenses	<u>516,575</u>
Less investment advisory fee waivers	<u>(116,803)</u>
Net expenses	<u>399,772</u>
Net investment income	53,103
Net realized gain on sale of investments	<u>9,597</u>
Net increase from investment operations before capital transactions	62,700
Capital shares issued	633,632,298
Capital shares redeemed	<u>(725,598,705)</u>
Decrease in net position restricted for pool participants	(91,903,707)
Net position restricted for pool participants - beginning of year	<u>340,362,922</u>
Net position restricted for pool participants - end of year	<u>\$ 248,459,215</u>

The accompanying notes are an integral part of these financial statements.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements

1. Authorizing Legislation

Massachusetts Development Finance Agency (the Agency or MDFA) was created on September 30, 1998 pursuant to Chapter 23G of Massachusetts General Laws (MGL) (Chapter 289 of the Acts of 1998). The Agency is a body corporate and politic instrumentality and was created from the statutory merger of, and is the legal successor in all respects to two previous existing instrumentalities, the Massachusetts Government Land Bank (Land Bank) (created in 1975 under Chapter 212 of the Acts of 1975) and the Massachusetts Industrial Finance Agency (MIFA) (created 1978 pursuant to chapter 23A of the MGL) and is the legal successor to the Massachusetts Health and Educational Facilities Authority (HEFA) (created pursuant to Chapter 614 of the Acts of 1968). Other powers of the Agency are also set forth in MGL's Chapter 40D (with respect to the issuance of taxable and tax-exempt bonds) and chapter 498 of the Acts of 1993, as amended (with respect to the redevelopment of the former Fort Devens (Devens), a closed federal military base). The purpose of the Agency is to stimulate economic growth, increase employment, eradicate blight, promote prosperity and help build communities throughout the Commonwealth of Massachusetts (Commonwealth). It does this through its powers to issue taxable and tax-exempt bonds for the benefit of industrial and commercial entities, institutions, health care and housing facilities, public bodies and other non-profit organizations; making loans and providing credit to eligible borrowers in accordance with its public purposes; and aiding public and private enterprises in the redevelopment of surplus federal and state property and other blighted, open, underdeveloped property. It also administers specific statutory funds directed at certain economic development needs in the Commonwealth, such as, Brownfields Redevelopment Program (Brownfields), Emerging Technology Program (ETP), Cultural Facilities Program, Massachusetts Export Finance Program, Credit Enhancement of Charter School Facilities Program, Site Readiness Program, Military Bond Bill Capital Projects Program (MBB), Transformative Development Initiative Program (TDI), redevelopment of the Belchertown State School, Transportation Infrastructure Enhancement Trust Program, Innovation Voucher Program, Underutilized Properties Program and Community Innovation Infrastructure Program. The Agency also has the power to issue debt for the redevelopment of Devens.

The Agency is governed by an 11-member Board of Directors (Board), nine of whom are appointed directly by the Governor and two of whom are public officials, or their designees, serving ex officio.

In accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, GASB No. 39, *Determining Whether Certain Organizations Are Component Units - an Amendment of GASB Statement 14*, GASB No. 61, *the Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34* and GASB No. 84, *Fiduciary Activities*, the financial statements must present the Agency and its component units. The Agency, itself, is considered a component unit of the Commonwealth and, accordingly, its financial statements are incorporated into the financial statements of the Commonwealth.

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The Agency's financial statements include the following blended component unit:

Taunton Development MassDevelopment Corporation

In January 2012, the Agency, in partnership with Taunton Development Corporation, purchased from the Commonwealth the former Dever State School core campus in Taunton, MA. The property consists of approximately 220 acres with approximately 40 dilapidated buildings and underground tunnels. A new non-profit corporation called Taunton Development MassDevelopment Corporation (TDMDC) was formed to own and redevelop the property. Redevelopment of the property includes expansion of the existing 150 acres of the Myles Standish Industrial Park and development of a life science park including a training/education center. Grants have been provided by the Commonwealth through MassWorks and by the United States Department of Commerce Economic Development Administration. TDMDC is included in the financial statements of the Agency as the majority of the TDMDC board members are executives of the Agency. The Agency also provides consultant services related to the redevelopment of the property and financial services for TDMDC. The net position of TDMDC was approximately \$9.8 million as of June 30, 2022. TDMDC does not issue stand-alone financial statements.

MassDevelopment New Markets LLC (MDNM)

The Agency, via subsidiary entity, MDNM, was awarded, since inception of the federal New Markets Tax Credit Program, the right to allocate federal New Markets Tax Credit's against \$341.0 million of its investors' investments by the United States Department of the Treasury. The Agency has a 0.01% to 0.10% investment allocation in the related investments. See Note 5 for more information.

STAR Fund

The Massachusetts Development Finance Agency Short-Term Asset Reserve Fund (formerly known as HEFA Short-Term Asset Reserve Fund) (STAR Fund) was established on July 16, 1991 under the laws of the Commonwealth, Chapter 614, of the Acts of 1968, to make available comprehensive investment management of proceeds of bonds and other obligations issued by HEFA on behalf of its institutional borrowers. The STAR Fund is a short-term money market portfolio which seeks to preserve principal and maintain liquidity. Pursuant to Chapter 240 of the Acts of 2010 of the Commonwealth, HEFA was merged into the Agency effective October 1, 2010. All rights, powers, duties and properties of HEFA related to the STAR Fund transferred to the Agency as of this date and the name was changed. The Agency is the administrator of the STAR Fund. Pursuant to the provisions of GASB No. 84, *Fiduciary Activities*, the STAR Fund qualifies as a fiduciary component unit of the Agency. As a result, the assets and corresponding net position of the STAR Fund are accounted for as a fiduciary activity and included in the statement of fiduciary net position and statement of changes in fiduciary net position as of June 30, 2022. The STAR Fund reports on a December 31 year end. If the STAR Fund were to terminate, all remaining funds would be due back to the participants in the STAR Fund. A copy of the financial statements of the STAR Fund can be obtained from the Office of the Chief Financial Officer, Massachusetts Development Finance Agency, 99 High Street, 11th floor, Boston, MA 02110.

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Income Taxes

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

2. Significant Accounting Policies

Accounting and Reporting Standards

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the GASB, which establishes standards for defining and reporting on the financial reporting entity.

The GASB defines the basic financial statements of a business type activity as the statement of net position, the statement of revenues, expenses and changes in net position, the statement of cash flows and management's discussion and analysis as required supplementary information. The statement of net position is presented to illustrate both the current and noncurrent balances of each asset and liability. All revenues and expenses are classified as either operating or nonoperating activities in the statement of revenues, expenses and changes in net position.

Operating activities are those that support the mission and purpose of the Agency. Nonoperating activities represent transactions that are capital, investing, legislative or regulated in nature.

Net position represents the residual interest in the Agency's assets plus deferred outflows of resources after liabilities plus deferred inflows of resources are deducted and consist of: net investment in capital assets, restricted, and unrestricted, as follows:

- **Net Investment in Capital Assets**
The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets plus unspent bond proceeds. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- **Restricted**
Net position is reported as restricted when there are third-party limitations (statutory, contractual or bond covenant) on its use. The STAR Fund's net position is restricted for pool participants.

Nonexpendable – Net position subject to externally imposed stipulations such that the Agency maintains them permanently. For the years ended June 30, 2022, the Agency did not have any nonexpendable restricted net position.

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Expendable – Net position whose use by the Agency is subject to externally imposed stipulations that can be fulfilled by actions of the Agency pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted**

Net position that is not subject to externally imposed stipulations. 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.

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, liabilities and deferred inflows of resources and disclosure of contingent assets, liabilities and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting in conformity with GAAP. Under the accrual basis, revenue is recognized when earned and expenses are recognized when obligations are incurred or when benefits are received.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with maturities of three months or less at acquisition. Current cash and cash equivalents consist of unrestricted funds available for general operating purposes for the General Operations Program and TDMDC. Current cash and cash equivalents-restricted for use consist of available funds for current operations related to the Devens Electric Utility Division and available funds for loan, guarantee, grant or capital activity for restricted programs. Noncurrent cash and cash equivalents restricted for capital use consist of funds available for future capital improvements. Noncurrent cash and cash equivalents-restricted for use consist of funds available for future debt service payments, project reserves and future operations when there are not sufficient funds available from current operations. Cash and cash equivalents includes the Agency's investments in the STAR Fund. Pursuant to GASB No. 79, *Certain External Investment Pools and Pool Participants*, the STAR Fund is a qualifying external investment pool that measures for financial reporting purposes all of its short-term money market portfolio at amortized cost. See Note 4 for more information related to the STAR Fund.

Investments

The Agency's investments are reported at fair value using quoted market price as defined by GASB No. 72, *Fair Value Measurement and Application*, except for guaranteed investment contracts (GIC), which are reported at contract value. Contract value represents contributions made under the contract plus accrued interest. GASB No. 72 also establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumptions.

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The Agency has loan agreements within the ETP, established under Sections 27 and 28 of MGL Chapter 23G. Certain loan agreements include separate warrants that qualify as reportable derivative instruments under GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The value of these warrants is ultimately dependent upon the fair value of the companies which have issued the warrants. The ETP is a loan program designed to promote economic development in the emerging technologies sector of the Massachusetts economy. These loans are generally issued to companies that are otherwise unable to obtain market-based financing. The majority of these companies are pre-revenue start-up operations funded in part through the ETP to promote economic development in the Commonwealth. The Agency has developed a reliable estimate of the fair value of the related warrants using a comparable company analysis and last round of financing approach. See Note 4 for more information related to these derivative instruments.

All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statement of revenue, expenses and changes in net position.

The primary objectives of the Agency's investment policies are to ensure preservation of capital, to grow funds available to meet the expanding needs of lending capital in the Commonwealth, to ensure liquidity of investments to meet current and estimated cash flow needs by investing in instruments with structured maturities that are readily marketable and to provide maximum yield while maintaining safety and liquidity. The maturities of investments range from less than one year to greater than five years. Investments may include money market funds with maturities of three months or less. These money market funds are classified as investments since they are held for the primary purpose of meeting some of the Agency's investment objectives and are due to investment restrictions placed on the related programs.

Loans Receivable and Predevelopment and Brownfield Receivables, net

Loans receivable consist of loans issued by the Agency for various economic development programs. Predevelopment and Brownfield receivables consist of loans issued by the Agency to finance early-stage project costs (i.e., architectural and engineering costs) which are necessary to advance a project to the development stage.

These loans receivable are stated at principal amount outstanding, net of a provision for loan loss. Loans are charged against the provision for loan loss when the Agency believes the collectability of the principal is unlikely. The provision for loan loss is an amount that the Agency believes will be adequate to absorb possible loan losses of existing loans that may become uncollectible.

Leases (Lessor)

The Agency, as a lessor, recognizes a lease receivable at the commencement of the lease term, with certain exceptions for short-term leases and leases that transfer ownership of the underlying assets. The Agency's also uses a threshold for classification of a lease receivable of \$5,000. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received.

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A deferred inflow of resources is recorded for the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Key estimates and judgments include how the Agency determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

The Agency's policy is to use the Prime interest rate at lease commencement plus a bank spread of 25 basis points for leases with terms less than ten years and 75 basis points for leases with terms greater than ten years.

The lease term includes the non-cancellable period of the lease, plus any additional periods covered by the option to extend the lease for which it is reasonably certain to exercise. Periods for which both the Agency and the lessee have the option to terminate are excluded from the lease term.

Payments are evaluated by the Agency to determine if they should be included in the measurement of the lease receivable, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, lease incentives and other payments.

The Agency monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease receivable, the receivable is remeasured, and a corresponding adjustment is made to the deferred inflow of resources.

Investment in Joint Ventures

The Agency accounts for its participating interest in its joint ventures using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for the Agency's share of net income or loss, cash contributions or distributions to and from its joint ventures as well as impairment losses on the joint ventures. Any impairment loss represents a write down to the carrying value of the investment as projections related to the investment show that it is not probable that the investment balance will be recoverable from distributions generated by future sales. These investments are deemed operating in nature as they support the mission and purpose of the Agency.

Impairment Loss on Joint Ventures

Management analyzes its investments in joint ventures to determine whether the amounts are considered to be permanently impaired based upon its best estimates of the cash flows from the investment. If a permanent impairment in carrying value exists, a provision to write down the investment to the estimated cash flows realizable from the investment will be recorded in the Agency's financial statements. There were no impairment losses recognized in fiscal year 2022.

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Accounts Receivable and Other Assets

The Agency evaluates the collectability of leases, utility and other accounts receivable after considering payment history. Although collection efforts continue, the Agency charges off any receivable balance that is deemed unlikely to be collected. Other assets mainly represents prepaid expenses.

Interest Receivable

Interest receivable represents the amount of interest revenue that was earned, but not yet received by the end of the fiscal year in relation to loans receivable, investments and lease receivable.

Interest income is recognized as earned. For loans receivable with interest payments in arrears, the Agency continues to accrue interest until such time as the loan agreement is restructured or the interest receivable is deemed to be uncollectible. When loans are restructured, interest payments in arrears, net of any amounts deemed uncollectible, are typically aggregated with the outstanding principal balance and interest is accrued on the new principal balance.

Project Escrows

The Agency holds funds consisting of cash and investments as collateral for mortgages receivable and as a source of payment for borrowers' obligations including tax and insurance payments. These amounts are recorded at market value and are held in separate bank accounts under the borrowers' tax identification numbers.

Due From the Commonwealth

Due from the Commonwealth represents amounts owed from the Commonwealth as of June 30, 2022, totaling \$1,689,021. The balance due from the Commonwealth mainly represents reimbursements due to the Agency for grant or project expenses incurred during the fiscal year.

Leases (Lessee)

The Agency is a lessee for various non-cancellable leases related to office space and equipment. The Agency's threshold for classification of a leased asset is \$5,000. For leases with a maximum possible term of 12 months or less at commencement, the Agency recognizes lease expense based on the provision of the lease. For all other leases (i.e. those that are not short-term), the Agency recognizes a lease liability and an intangible right-to-use lease asset in the financial statements. The Agency's also uses a threshold for classification of a lease asset of \$5,000.

At lease commencement, the Agency initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

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Key estimates and judgments include how the Agency determines (1) the discount rate it uses to calculate the present value of the expected lease payments, (2) lease term, and (3) lease payments.

The Agency’s policy is to use the Prime interest rate at lease commencement plus a bank spread of 25 basis points for leases with terms less than ten years and 75 basis points for leases with terms greater than ten years.

The lease term includes the non-cancellable period of the lease, plus any additional periods covered by the option to extend the lease for which it is reasonably certain to exercise. Periods for which both the Agency and the lessor have the option to terminate are excluded from the lease term.

Payments are evaluated by the Agency to determine if they should be included in the measurement of the lease liability, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, lease incentives, purchase options, payments for termination penalties and other payments.

The Agency monitors changes in circumstances that may require remeasurement of a lease. When certain changes occur that are expected to significantly affect the amount of the lease liability, the liability is remeasured, and a corresponding adjustment is made to the lease asset.

Capital Assets, Net

Capital assets are carried at cost less accumulated depreciation. The Agency’s threshold for classification of a capital asset is \$5,000. Depreciation is recorded using the straight-line method over the estimated useful life of the asset ranging from 1 to 40 years as noted below:

	Depreciable <u>Years</u>
Land	N/A
Building	20-40
Buildings/land/tenant improvements	1-20
Infrastructure	5-20
Equipment	3-10
Office equipment	3-5
Construction in progress	N/A
Assets held for sale	N/A

Maintenance and repairs are charged to expense when incurred while betterments and additions are capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the Agency’s accounts and any gain or loss is recognized.

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Assets Held for Sale

Certain properties are redeveloped with the intent to ultimately sell the asset to a third-party. When such assets are substantially complete and ready for sale, the capitalized investment is reclassified to assets held for sale.

Capital Asset Impairments

The Agency assesses the carrying value of property whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with GAAP. Impaired capital assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used are measured using the method that best reflects the diminished service utility of the capital asset. Impairment of capital assets with physical damage are measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. The Agency did not record any impairment charges as of June 30, 2022 as there were no indicators of impairment.

Accounts Payable and Accrued Expenses

The Agency accrues expenses on a monthly basis based on current contracts and invoices. The Agency accrues amounts for compensated absences as earned up to certain limitations which represent vacation amounts payable to employees upon termination of employment.

Other Liabilities

Other liabilities consists of unearned revenues received from the Commonwealth for future grants or project expenses, deferred gains on property sales, unearned insurance premiums and miscellaneous liabilities.

Bonds Payable and Advances From the Commonwealth of Massachusetts

Bonds and advances are recorded at date of issuance, net of related premium or discount amounts. Premiums and discounts are amortized or accreted, respectively, over the term of the related bond or advance, and these amounts are recorded as a component of non-operating expense.

Revenue Recognition

Application and processing fees for both tax-exempt and taxable bonds are recorded as bond issuance fee revenue on the date of closing on the bond. Debt servicing fees are recorded as revenue upon receipt. These are fees that are collected for Agency assistance in bond closings.

Management fee income for the New Markets Tax Credit (NMTC) programs is recorded as services related to managing the operations of the NMTC programs are performed.

Lease income and interest income on leased assets are recognized over the life of the respective lease.

Guarantee fees received for loans guaranteed by the Agency are reported as unearned and recognized ratably over the term of the guarantee agreement. Guarantee fees are included in the

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statements of revenues, expenses and changes in net position operating revenues as interest and other loan income.

Capital grant revenue is recognized depending on the terms of the related grant. Charter school grant revenue is recognized as charter school loan guarantees are issued. All other grant revenue is recognized as funds are disbursed for the related project.

Contributions from the Commonwealth are recognized according to the terms of the related agreement. Most are reimbursement type grants and are recognized as qualifying expenses are incurred.

Devens operating revenue mainly consists of fees received for utilities and municipal services and are recognized as earned.

The Agency accrues monthly principal and interest reimbursements due under its contract with the Commonwealth for debt service payments associated with the Department of Environmental Protection (DEP) loan and records these amounts as contract assistance which is included in non-operating revenue.

Generally, gains on sales of real estate are recognized as earned. Certain purchase and sale agreements include a repurchase clause; therefore, these gains on sales are not recognized until the conditions in the repurchase clauses are satisfied.

Provision for Loan Loss

Provision for loan loss represents the necessary expense to maintain an adequate allowance for estimated loan losses. In determining the provision, the Agency evaluates each loan and considers past performance history, collateral value, financial stability of the borrower and the likelihood for foreclosure and such other factors as deemed necessary. The loan portfolio and the Agency's loan loss rating system are evaluated annually by management and an independent consulting firm.

Provision for Predevelopment and Brownfield Receivables, net

Provision for Predevelopment and Brownfield receivables, net, represents the expense necessary to maintain an adequate allowance for estimated losses of receivables that may become uncollectible.

Subsequent Events

Management has evaluated subsequent events through December 15, 2022, the date of the financial statements were available for issuance, noting no additional material events to disclose other than the items noted below.

On November 1, 2022, the Agency sold a building at 1550 Main Street in Springfield, Massachusetts. The sale resulted in gross sales proceeds of \$6,000,000 and a net gain of approximately of \$2,200,000.

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New Accounting Pronouncements

Accounting Standards Effective in Current Year

During 2022, the Agency adopted GASB No. 87, *Leases*. This standard establishes standards of accounting and financial reporting for leases by lessees and lessors. The objective of this standard is to better meet the informational needs of financial statement users by improving accounting and financial reporting for leases by governments. This standard became effective for financial statements for fiscal years beginning after June 15, 2021. The Agency restated its 2022 beginning balances to reflect the requirements of GASB No. 87 as of July 1, 2020. The adoption of GASB No. 87 increased lease receivable, leased assets, net, deferred inflows of resources, lease liability and net position by \$12.5 million, \$4.3 million, \$12.2 million, \$5.2 million and \$0.1 million, respectively, as of June 30, 2021. Please also refer to Note 11.

During 2022, the Agency adopted GASB No. 92, *Omnibus 2020*. The objectives of this standard are to enhance comparability in accounting and financial reporting and improve consistency of authoritative literature. There are varying effective dates based on the applicable requirements in the related GASB. The adoption of this standard did not have a significant effect on the Agency's financial statements.

During 2022, the Agency adopted GASB No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plan*. The primary objectives of this standard are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for IRC Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This standard is effective for reporting periods beginning after June 15, 2021. The adoption of this standard did not have a significant effect on the Agency's financial statements.

During 2022, the Agency adopted GASB No. 98, *The Annual Comprehensive Financial Report*. This standard establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances of comprehensive financial report and its acronym in generally accepted accounting principles for state and local governments. This standard is effective for fiscal years ending after December 15, 2021. The adoption of this standard did not have a significant effect on the Agency's financial statements.

New Accounting Standards Not Yet Effective

In May 2019, the GASB issued GASB No. 91, *Conduit Debt Obligations*. The objective of this standard is to provide a single method of reporting conduit debt obligations by issuers. This standard is now effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency's financial statements.

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In March 2020, the GASB issued GASB No. 93, *Replacement of Interbank Offered Rates*. The objective of this standard is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The removal of IBOR as an appropriate benchmark interest rate is now effect for reporting periods beginning after December 31, 2022. All other requirements of this standard are now effective for reporting periods beginning after June 15, 2022. Earlier application is encourage. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency’s financial statements.

In March 2020, the GASB issued GASB No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this standard is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This standard is effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency’s financial statements.

In May 2020, the GASB issued GASB No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this standard is to improve guidance on accounting and financial reporting for subscription-based information technology arrangements. This standard is effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency’s financial statements.

In April 2022, the GASB issued GASB No. 99, *Omnibus 2022*. The objective of this standard is to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature. There are varying effective dates based on the applicable requirements in the related GASB. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency’s financial statements.

In June 2022, the GASB issued GASB No. 100, *Accounting Changes and Error Corrections-an amendment of GASB No. 62*. The objective of this standard is to enhance accounting and financial reporting for accounting changes and error corrections. This standard is effective for reporting periods beginning after June 15, 2023. Earlier application is encouraged. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency’s financial statements.

In June 2022, the GASB issued GASB No. 101, *Compensated Absences*. The objective of this standard is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This standard is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged. The Agency is in the process of reviewing how the adoption of this standard will impact the Agency’s financial statements.

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3. Programs of the Agency

The following describes certain programs or divisions of the Agency. Please also refer to the supplemental information on page 68.

General Operations Program

The General Operations Program supports five major programs of the Agency: direct lending, investment banking, development/redevelopment of properties, consulting/technical assistance to communities and support of the defense sector in the Commonwealth. The Agency's lending programs consist of business loans, real estate mortgages, equipment loans and development loans. Lending programs generate fee income at closings and interest income. Investment banking acts as a conduit issuer for tax-exempt and taxable bond financing for a variety of borrowers. Investment banking generates fee income from bond issuances.

The Agency invests funds in real estate developments in support of the development/redevelopment of blighted and/or surplus public properties within the Commonwealth. The Agency is actively involved in the development and/or ongoing operations of such properties in Devens, Springfield, Northampton, Belchertown and Taunton, Massachusetts, and certain Massachusetts state piers. The Agency provides technical assistance to communities through various programs, including loans and consulting services. The Agency also devotes staff time toward defense sector work. Current defense sector projects include economic analysis of the importance of the Commonwealth's military installations and work on the Commonwealth's Military Asset and Security Strategy Task Force. The net position of the General Operations Program was approximately \$164.3million as of June 30, 2022.

Devens Operations Program

The Devens Operations Program was established under Chapter 498 of the Acts of 1993, as amended (with respect to the redevelopment of Devens, a former federal military base). With financial support from the Commonwealth, the Agency purchased the property and has been redeveloping Devens, a 4,400-acre mixed-use community located in Devens, MA, by creating a sustainable and diverse residential and business community. The Agency currently provides municipal services, education, environmental protection, redevelopment and property leasing services at Devens. The net position of the Devens Operations Program was approximately \$61.1 million as of June 30, 2022.

Brownfield Redevelopment Program

Brownfield was established in 1998 as part of the Commonwealth's Brownfield Act to encourage reuse of environmentally contaminated property in economically distressed areas of the Commonwealth. This program is administered by the Agency and all cash balances related to this program must be invested according to an established Agency investment policy related to restricted funds. All related interest income must be utilized for the administration of the program. The Agency had approximately \$1.5 million of gross Brownfield loans receivable with loan loss reserves of approximately \$0.2 million for net Brownfield loans receivable of approximately \$1.3 million outstanding as of June 30, 2022. The Agency also issued approximately \$2.2 million of grant awards during fiscal year 2022. As of June 30, 2022, approximately \$7.3 million was available for disbursement. The restricted net position of this program was approximately \$5.8 million as of June 30, 2022.

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Emerging Technology Program

The ETP was established under Sections 27 and 28 of MGL Chapter 23G. ETP leverages private financing to provide capital for businesses, which develop or commercialize emerging technologies. The Agency had approximately \$8.6 million of gross ETP loans receivable with loan loss reserves of approximately \$2.0 million for net ETP loans receivable of approximately \$6.6 million outstanding as of June 30, 2022.

As of June 30, 2022, the Agency had approximately \$35.6 million available for disbursement. The restricted net position of this program was approximately \$48.6 million as of June 30, 2022. There were no Agency assets at risk due to outstanding ETP guarantees, including unfunded commitments, at June 30, 2022.

The Agency has also committed an additional \$5.0 million to an equity investment in the Commonwealth Fund III LLC (Fund) from the ETP. As of June 30, 2022, a total of \$4.3 million had been contributed to the Fund.

Cultural Facilities Program

The Cultural Facilities Program was established under Section 42 of the MGL Chapter 23G, effective July 13, 2006. The purpose of the Cultural Facilities Program is to make grants or loans for the acquisition, design, construction, repair, renovation, rehabilitation or other capital improvement or deferred maintenance of a cultural facility. All related interest income must be utilized for the administration of the program. New funds are given to the Agency on a reimbursement basis as grants are awarded. The Agency awarded approximately \$8.2 million of grant awards during fiscal year 2022. As of June 30, 2022, approximately \$7.2 million is on hand and available for disbursement. The Agency has \$1.5 million due from the Commonwealth at June 30, 2022 for grant and administrative expense reimbursement for the fiscal year. The restricted net position of this program was approximately \$3.0 million as of June 30, 2022.

Massachusetts Export Development Program

This program serves as a guarantee to lending institutions for their working capital loans to Massachusetts exporters. These funds are administered by the Agency and must be invested in securities issued by the Treasury of the United States Government or the Commonwealth. All related investment income must be utilized for the administration of this program. The Agency had designated approximately \$3.3 million at June 30, 2022 for this program. Total Agency assets at risk due to Massachusetts Export Development Program guarantees outstanding, including commitments, aggregated approximately \$3.2 million at June 30, 2022. The restricted net position of this program was approximately \$2.8 million as of June 30, 2022. This program is included in the Other column in the supplemental information on page 68.

Mortgage Insurance Program

The purpose of the MIP is to encourage private sector investment by guaranteeing a portion of bank loans or bond issues. Premium income received and other monies made available to the program are credited thereto. This premium income is amortized over the loan guarantee period. The approved leverage policy for this program is 1) for loans secured by first liens on real estate or equipment three times the cash balance in the program backing such guarantees and 2) for loans secured by second liens on capital assets or first liens on other business assets, no more than one and a half times the cash balance in the program backing such guarantees. The Agency

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had designated approximately \$13.7 million at June 30, 2022 for the MIP and are considered restricted funds.

Total Agency assets at risk due to mortgage insurance in force, including commitments, under the Guaranteed Loan Program, aggregated approximately \$12.2 million at June 30, 2022. The restricted net position of this program was approximately \$13.2 million as of June 30, 2022. This program is included in the Other column in the supplemental information on page 68.

MassDevelopment/HEFA Trust (Trust)

The Trust was established on July 8, 1997 as an irrevocable trust. The Trust's net position is subject to restrictions regarding its use. The Trust is authorized to make payments to charitable organizations or governmental entities, such as public colleges and universities, to assist in the form of gifts, grants and loans. The General Operations Program may be eligible to receive the income and up to 10% of the principal from the Trust at the trustees' direction. All payments to the General Operations Program shall be used by the Agency only to reduce charges it would otherwise have to impose upon institutions using the Agency's services, and all payments to charitable institutions or governmental entities must be for their charitable and governmental purposes, respectively.

During the years ended June 30, 2022, the Trust awarded grants of \$933,976 to charitable institutions. The Trust also started issuing loans beginning with fiscal year 2014. The net loan receivable balance as of June 30, 2022 was \$0. As of June 30, 2022, approximately \$8.9 million is available for future payments. The grants are reported as other grant awards in the accompanying statements of revenues, expenses and changes in net position. The restricted net position of the Trust was approximately \$8.9 million as of June 30, 2022.

Credit Enhancement of Charter School Facilities Program (Charter School Fund)

The Charter School Fund program currently has a total capitalization of \$75,025,000 derived from six grant awards from the U.S. Department of Education (U.S. DOE), matching private guarantees from Local Initiatives Support Corporation and matching guarantees from the Agency's General Fund Program.

During fiscal year 2005, the Agency was awarded \$10,025,000 from the U.S. DOE to enable the Agency to facilitate the financing of charter schools through the issuance of loan guarantees. The first tier of the 2005 funding includes the \$10,025,000 from the U.S. DOE and a \$500,000 matching guarantee provided by the Agency's General Fund Program. The second tier of the 2005 funding included a \$2,000,000 guarantee from Local Initiatives Support Corporation and a \$500,000 guarantee from the Agency's General Fund.

During fiscal year 2014, the Agency was awarded another \$5,000,000 towards this program by the U.S. DOE and the Agency's General Fund Program may provide up to \$5,000,000 of match funding for guarantees. During fiscal years 2015 and 2016, the Agency was awarded another \$3,900,000 and \$1,100,000, respectively, under one grant, and the Agency's General Fund Program may provide up to \$5,000,000 of match funding for guarantees.

During fiscal year 2018, the Agency was awarded another \$8,000,000 towards this program by the U.S. DOE and the Agency's General Fund Program may provide up to \$8,000,000 of match

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funding for guarantees. During fiscal year 2020, the Agency was awarded another \$5,000,000 towards this program by the U.S. DOE. Additionally, second tier support of \$5,000,000 was provided in fiscal 2021 and includes support from the Agency's General Fund Program providing up to \$2,500,000 of matching funds and Local Initiatives Support Corporation providing a \$2,500,000 guarantee. In fiscal year 2021, the Agency was awarded another \$8,000,000 towards this program by the U.S. DOE and the Agency's General Fund Program may provide up to \$8,000,000 of matching funds for guarantees.

As of June 30, 2022 approximately \$35.1 million are available for loan guarantees. Total Agency assets at risk due to outstanding guarantees, including commitments, aggregated approximately \$33.3 million at June 30, 2022. The restricted net position of this program was approximately \$34.2 million as of June 30, 2022.

Devens Electric Utility Division

In February 2001, the Agency issued Electrical System Revenue Bonds, Series 2001 (Series 2001 Bonds) for the purpose of financing the design, construction, installation and associated costs of the electrical system at Devens, as part of its Devens operations. As required by Section 609 of the Master Trust Indenture by and between the Agency and the Trustee, the Agency accounts for all related revenues and expenditures associated with the electric utilities at Devens as a separate division within the Agency. Net position of the Devens Electric Utility Division was approximately \$12.2 million as of June 30, 2022. See Note 18 Segment Reporting.

Devens Gas, Water and Wastewater Utility Divisions

Devens also provides natural gas, water and sewer services to the residents and businesses of Devens, MA, as part of its Devens operations. The utility divisions pursue programs aimed at increasing energy supply, reliability and efficiency while limiting costs. The Agency tracks each utility division as a separate and distinct program. The net position of these utility divisions was approximately \$30.5 million as of June 30, 2022.

Military Bond Bill Capital Projects Program

MBB was established pursuant to MGL Chapter 6, Section 216. The purpose of this program is to establish a military asset and security task force and provides that the Agency oversee and implement military installations mission improvement and expansion projects or base realignment preparation and mitigation projects, including the acquisition, management and disposition of all or any portion of military installations, buildings and utility systems, equipment and personal property, as well as, acquire title to land, buildings and improvements that comprise all or any portion of military installations upon the transfer or disposition of any portion of the military installations by the federal government. During fiscal year 2022, MBB awarded grants totaling \$3.8 million. The restricted net position of this program was \$0 as of June 30, 2022. The MBB is included in the other column in the supplemental information on page 68.

Transformative Development Initiative Program

TDI was established pursuant to MGL Chapter 287, acts of 2014. The purpose of this program is to redevelop Gateway cities to enhance local public-private engagement and community identity; stimulate an improved quality of life for residents and spur increased investment and economic activity. As of June 30, 2022, approximately \$31.7 million was available for disbursement. During fiscal year 2022, TDI awarded grants totaling \$1.7 million and had \$1.0 million worth of

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direct project expenses. The net position of this program was approximately \$24.7 million as of June 30, 2022.

Transportation Infrastructure Enhancement Trust Program (TNC)

TNC was established pursuant to MGL Chapter 187, acts of 2016. The purpose of this program is to provide financial assistance to small businesses operating in the taxicab, livery or hackney industries to promote the adoption of new technologies and support workforce development. As of June 30, 2022, approximately \$7.3 million was available for disbursement. During fiscal year 2022, TNC awarded grants totaling \$0.1 million and had \$0.0 million worth of direct project expenses. The net position of this program was approximately \$0.2 million as of June 30, 2022. TNC is included in the other column in the supplemental information on page 68.

Innovation Voucher Program

The Innovation Voucher Program was established pursuant to MGL Chapter 75, acts of 2017. The purpose of this program is to provide a voucher program to small corporations and start-up companies for sharing the use of core facilities at the University of Massachusetts. As of June 30, 2022, approximately \$1.9 million was available for disbursement. During fiscal year 2022, Innovation Voucher awarded grants totaling \$1.6 million. The net position of this program was approximately \$0.1 million as of June 30, 2022. Innovation Voucher is included in the other column in the supplemental information on page 68.

Community Innovation Infrastructure Program (CIIP)

The CIIP was implemented through a collaboration between the Agency and the Executive Office of Housing and Economic Development to support the fit-out and feasibility work needed to grow collaborative workspaces. As of June 30, 2022, approximately \$0.1 million was available for disbursement. During fiscal year 2022, CIIP awarded grants totaling \$1.0 million. The net deficit of this program was approximately \$0.2 million as of June 30, 2022. CIIP is included in the other column in the supplemental information on page 68.

Site Readiness Program

The Site Readiness Program aims to increase the Commonwealth's inventory of large, well-located, project ready sites; to accelerate private-sector investment in industrial and commercial projects; and to support the conversion of abandoned sites and obsolete facilities into clean, actively used, tax-generating properties. As of June 30, 2022, approximately \$8.5 million was available for disbursement. During fiscal year 2022, the Site Readiness Program awarded grants totaling \$0.1 million and had \$1.4 million worth of direct project expenses. The net position of this program was approximately \$3.9 million as of June 30, 2022.

Underutilized Properties Program (UPP)

The 2021 Economic Development Bill authorized \$40.0 million for the UPP to be administered by the Agency for the purpose of funding projects that will improve, rehabilitate or redevelop blighted, abandoned, vacant or underutilized properties to achieve the public purposes of eliminating blight, increasing housing production, supporting economic development projects, increasing the number of commercial buildings accessible to persons with disabilities. The program focuses on funding capital improvements and code compliance projects, along with the design of these improvements. As of June 30, 2022, approximately \$4.3 million was available for disbursement. During fiscal year 2022, the UPP awarded grants totaling \$1.2 million. The

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net position of this program was approximately \$0.1 million as of June 30, 2022. UPP is included in the other column in the supplemental information on page 68.

CARES Act Revolving Loan Program

In 2021, the Agency was awarded \$3,043,469 from the U.S. Department of Commerce’s Economic Development Administration to help alleviate severe economic dislocation caused by the coronavirus pandemic. The program was capitalized with \$2,850,000 and \$193,469 to defray the cost of administering the program. As of June 30, 2022, approximately \$0.2 million was available for disbursement. The Agency had approximately \$2.7 million of gross loans receivable with loan loss reserves of approximately \$0.2 million for net loans receivable of approximately \$2.5 million outstanding as of June 30, 2022. The net position of this program was approximately \$2.6 million as of June 30, 2022.

Bond Issuance Program

The Bond Issuance Program allows the Agency to offer debt financing by acting as a conduit bond issuer, usually on a tax-exempt basis, for diverse types of borrowers including but not limited to colleges, hospitals and other non-profits, affordable rental housing developments, manufacturing companies, solid waste disposal facilities and public infrastructure. The Agency’s conduit bonds are purchased by banks or other types of investors. Principal and interest on the conduit bonds are payable from funds received from the underlying borrowers. Bonds may or may not carry private credit enhancement and are not obligations of the Agency, although in some cases a separate loan guarantee may have been provided by the Agency to a bank purchaser from one of the Agency’s Loan Guarantee programs.

4. Cash, Cash Equivalents and Investments

The following summarizes the cash and cash equivalents of the Agency and identifies certain types of investment risk as defined by GASB No. 40, *Deposit and Investment Risk Disclosures* at June 30, 2022:

	Carrying Amount
Cash deposits	<u>\$ 189,041,421</u>

General Operations Program’s allowable investments include: U.S. Treasuries, U.S. government agency issues, bank certificates of deposit or time deposits, banker’s acceptance, short-term corporate obligations, repurchase agreements, asset backed securities, and money market funds. The maximum maturity of any investment is five years with the exception of floating rate notes, with 10% of the portfolio always being available in one day.

Restricted Operations Program’s allowable investments include: bonds, notes and similar debt instruments issued by corporations, trusts, partnerships and limited liability companies; commercial paper; U.S. time deposits, certificates of deposit and banker’s acceptances; fixed, variable and indexed rate notes; repurchase agreements and securities issued by companies, trusts and other entities registered under the 1940 Act or exempt from the 1940 Act under Section 3(c). The maximum allowable dollar-weighted average maturity is 90 days. The

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maximum maturity of any investment is 397 days, with 10% of the portfolio always being available in one day.

Depository Accounts

	2022
Insured	\$ 63,471,099
Uninsured	<u>125,570,322</u>
	<u><u>\$ 189,041,421</u></u>

At June 30, 2022, investments of approximately \$70.7 million were designated for purposes such as specific loan, guarantee or grant programs and are included in investments in the statement of net position.

At June 30, 2022, current investments included approximately \$61.2 million of restricted investments. Noncurrent restricted investments were approximately \$20.4 million as of June 30, 2022.

The Agency invests some of its funds in the STAR Fund. The STAR Fund is designed to comply with all Massachusetts statutes and regulations for the allowable investment of funds by the Agency. The Agency's STAR Fund holdings as of June 30, 2022 were approximately \$112.3 million.

As of June 30, 2022, the Agency's investments by maturity are summarized as follows:

Investment Type	Investment Maturities (in years)				Level Inputs (1, 2, 3)
	Fair Value	Less Than 1	1 to 5 *	More Than 5	
U.S. Treasury bonds	\$ 20,767,890	\$ 2,951,094	\$ 17,816,796	\$ -	1
Federal agency bonds/notes	13,469,113	5,793,600	7,675,513	-	2
Corporate notes	7,137,303	7,137,303	-	-	2
Commercial paper	14,395,074	14,241,096	153,978	-	2
Certificates of deposit	11,479,801	11,479,801	-	-	2
Asset backed securities	10,867,386	-	10,867,386	-	2
U.S. Bank First American money market fund	39,068,039	39,068,039	-	-	2
Exchange traded fund-bond	568,161	-	-	568,161	2
Exchange traded fund-equity	3,676,070	-	-	3,676,070	2
Mutual fund-bond	2,389,114	-	-	2,389,114	2
Mutual fund-equity	894,563	-	-	894,563	2
Mutual fund-other	585,343	-	-	585,343	2
Guaranteed investment contracts	294,845	-	-	294,845	N/A
Stock warrants	923,800	-	-	923,800	3
Common stock	1,759,755	-	-	1,759,755	1, 3
	<u>\$ 128,276,257</u>	<u>\$ 80,670,933</u>	<u>\$ 36,513,673</u>	<u>\$ 11,091,651</u>	

* This rating category includes a structured investment vehicle in commercial paper. This investment has been adjusted to reflect fair market value.

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The Devens Electric Utility Division’s investments include GIC’s with multiple providers who maintain the contributed investments. These GIC’s are credited with earnings on the underlying investments and charged for withdrawals and expenses. The providers are contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Devens Electric Utility Division. The contract value represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses. In accordance with GASB No. 72, *Fair Value Measurement and Application*, these investments are measured at contract value which falls outside of the fair value hierarchy.

As of June 30, 2022, the Agency’s investments by quality rating are summarized as follows:

Investment Type	Quality Ratings				
	Fair Value	AAA	AA	A	Unrated*
U.S. Treasury bonds	\$ 20,767,890	\$ -	\$ 20,767,890	\$ -	\$ -
Federal agency bonds/notes	13,469,113	-	13,469,113	-	-
Corporate notes	7,137,303	-	1,893,863	5,243,440	-
Commercial paper	14,395,074	-	-	14,241,096	153,978
Certificates of deposit	11,479,801	-	-	11,479,801	-
Asset backed securities	10,867,386	8,779,145	-	-	2,088,241
U.S. Bank First American money market fund	39,068,039	39,068,039	-	-	-
Exchange traded fund-bond	568,161	-	-	-	568,161
Exchange traded fund-equity	3,676,070	-	-	-	3,676,070
Mutual fund-bond	2,389,114	-	-	-	2,389,114
Mutual fund-equity	894,563	-	-	-	894,563
Mutual fund-other	585,343	-	-	-	585,343
Guaranteed investment contracts	294,845	-	-	294,845	-
Stock warrants	923,800	-	-	-	923,800
Common stock	1,759,755	-	-	-	1,759,755
	<u>\$ 128,276,257</u>	<u>\$ 47,847,184</u>	<u>\$ 36,130,866</u>	<u>\$ 31,259,182</u>	<u>\$ 13,039,025</u>

* This rating category includes a structured investment vehicle in commercial paper. This investment has been adjusted to reflect fair market value.

The Agency has loan agreements within the ETP. The ETP is a loan program designed to promote economic development in the emerging technologies sector of the Massachusetts economy. These loans are generally issued to companies that are otherwise unable to obtain market-based financing. The majority of these companies are pre-revenue start-up operations which are being incubated through the ETP to promote economic development in the Commonwealth. Certain loan agreements include warrants that qualify as reportable derivative instruments under GASB No. 53. The value of these warrants is ultimately dependent upon the fair value of the companies which have issued the warrants. The objective of including a warrant in the loan agreement is for the ETP to share in any success the company may achieve if there is an initial public offering or sale of the company. Any successful warrant exercised essentially serves as a yield enhancement to the ETP and any proceeds are deposited back into the ETP.

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The Agency has developed a reliable estimate of the fair value of the related warrants using a comparable company analysis and last round of financing approach or Black-Scholes method. Privately held warrant and equity-related securities are valued based on an analysis of various factors including, but not limited to: 1) the related company's operating performance and financial condition, 2) general economic and industry trends, 3) the company's latest round of financing, 4) price to enterprise value or price to equity ratios, and discounted cash flow, and 5) valuation comparisons to comparable public companies or other industry benchmarks. When an external event occurs, such as a purchase transaction, public offering, or subsequent equity sale, the pricing indicated by that external event is utilized to corroborate the valuation of the warrant and equity-related securities. The Agency periodically reviews the valuation of its portfolio companies that have not been involved in a qualifying external event to determine if the value of the portfolio company may have increased or decreased since the last valuation measurement date.

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As of June 30, 2022, the Agency had the following derivative instruments outstanding which are included in noncurrent investments:

Type	Effective Date	Maturity Date	Terms	Valuation Technique	Fair Value
Series B Warrants	6/30/2017	6/30/2027	35,616 shares with exercise price of \$3.65	Market Comparable Method	\$ 24,000
Series Seed Warrants	6/30/2020	6/30/2030	391,461 shares with exercise price of \$0.374	Contingent Claims Analysis	27,000
Class D Warrants	4/8/2021	4/8/2031	10,227 shares with exercise price of \$11.00	Comparable Company Analysis	500
Series Seed Warrants	12/5/2019	12/5/2029	56,471 shares with exercise price of \$0.85	Comparable Company Analysis	3,000
Series B-1 Warrants	2/1/2019	2/1/2029	19,930 shares with exercise price of \$0.81	Comparable Company Analysis	489,000
Series A-2 Warrants	5/31/2019	5/31/2029	681,368 shares with exercise price of \$0.30	Comparable Company Analysis & Last Round of Financing Analysis	32,000
Series D Warrants	8/30/2012	8/30/2022	301,858 shares with exercise price of \$0.32	Market Comparable Method	70,000
Series AD-1 Warrants	3/18/2021	4/9/2031	85,607 shares with exercise price of \$0.8761	Market Comparable Method	9,000
Series A-1 Warrants	2/22/2017	2/22/2027	128,458 shares with exercise price of \$1.265	Comparable Company Analysis	12,000
Class A Warrants	8/30/2019	8/30/2029	106,250 shares with exercise price of \$0.80	Black-Scholes	30,000
Series A3 Warrants	5/11/2018	5/11/2028	32,420 shares with exercise price of \$3.47	Comparable Company Analysis & Last Round of Financing Analysis	100,000
Class A Warrants	3/20/2020	3/20/2030	57,692 shares with exercise price of \$1.30	Black-Scholes	29,000
Series Seed Warrants	8/18/2014	8/18/2024	93,333 shares with exercise price of \$0.45	Market Comparable Method	300
Series B Warrants	7/1/2021	6/15/2026	240,000 shares with exercise price of \$0.70	Market Comparable Method	29,000
Equity Equivalent Units	6/27/2018	None	4,400 units with exercise price of \$1.00	Comparable Company Analysis	69,000
				Total	<u>\$ 923,800</u>

Custodial Credit Risk-Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the Agency's deposits may not be recovered. The Agency's policy is to only invest with reputable financial institutions.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency manages its exposure to interest rate risk by investing operating funds primarily in short-term investments.

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Additionally, the STAR Fund maintains a dollar-weighted average maturity of not greater than 90 days; requires that any investment securities purchased by the STAR Fund have remaining maturities of 397 days or less at the time of purchase (except for variable rate notes issued by the United States government or its agencies or instrumentalities, which must have remaining maturities of 762 days or less); and limits the remaining maturity of any commercial paper purchased by the STAR Fund to 270 days or less.

Credit Risk

Credit risk is the risk that the Agency’s investments will be negatively impacted due to the default of the Agency’s investments. According to the Agency’s investment policy, investments must be prime quality and rated no less than A by either Moody’s, Standard & Poor’s, or Fitch.

Concentration of Credit Risk

Concentration of credit risk is assumed to arise when the amount of cash and investments that the Agency has with any one issuer exceeds 5% of the total value of the Agency’s investments. As of June 30, 2022, the cash, cash equivalents and investments held in any one issuer over 5% of the total value of the Agency’s investments included \$39.1 million invested in a government money market fund (30.5%).

Foreign Currency Risk

The investment policy of the Agency limits the Agency’s foreign currency risk by excluding foreign investments as an investment option.

STAR Fund Investment Risks

The following are risk disclosures of the STAR Fund as of December 31, 2021:

Credit Risk

The STAR Fund’s investment policies, as outlined in its Information Statement, limit the STAR Fund’s investments to those which investors in the STAR Fund can invest under the laws of the Commonwealth. As of December 31, 2021, the STAR Fund was comprised of investments which were, in aggregate, rated by Standard & Poor’s (S&P) as follows:

S&P Rating	%
AAAm	0.40%
AA+	6.05%
AA-	2.12%
A-1+	17.78%
A-1	36.35%
A+	5.53%
A	3.47%
Exempt ⁽¹⁾	28.30%

⁽¹⁾ Represents investments in U.S. Treasury securities, or repurchase agreements collateralized by U.S. Treasury securities, which are not considered to be exposed to overall credit risk per GASB.

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The ratings in the preceding chart include the ratings of collateral underlying repurchase agreements in effect at December 31, 2021. Securities with a long-term rating of A or higher are equivalent to the highest short-term rating category based on S&P rating methodology.

Concentration of Credit Risk

As outlined in the STAR Fund’s Information Statement, the STAR Fund’s investment policy establishes certain restrictions on investments and limitations on portfolio composition. At December 31, 2021, the STAR Fund’s portfolio included the following issuers, aggregated by affiliated issuers where applicable, which individually represented greater than 5% of the STAR Fund’s total investment portfolio:

Issuer	%
Credit Agricole Corporate & Investment Bank (NY) ⁽¹⁾	11.89%
Goldman Sachs & Co. ⁽¹⁾	8.89%
U.S. Treasury	12.38%

⁽¹⁾ *This issuer is also counterparty to a repurchase agreement entered into by the Fund. These repurchase agreements are collateralized by U.S. Government Agency and/or U.S. Treasury obligations.*

Interest Rate Risk

The STAR Fund’s investment policy limits its exposure to market value fluctuations due to changes in interest rates by requiring that: (1) it maintain a dollar-weighted average maturity of not greater than 60 days; (2) requiring that any investment securities purchased by the STAR Fund have remaining maturities of 397 days or less at the time of purchase (except for variable rate notes issued by the United States government or its agencies or instrumentalities, which must have remaining maturities of 762 days or less) and (3) limiting the remaining maturity of any commercial paper purchased by the STAR Fund to 270 days or less. At December 31, 2021, the weighted average maturity of the STAR Fund, including cash and cash equivalents and certificates of deposit, was 49 days.

The range of yields to maturity, actual maturity dates, principal values, fair values and weighted average maturities of these types of investments the STAR Fund held at December 31, 2021 are as follows:

Type of Deposits and Investments	Yield-to-Maturity Range	Maturity Range	Principal	Fair Value	Weighted Average Maturity
Asset-Backed Commercial Paper	0.16%-0.33%	2/1/22-7/12/22	\$ 29,299,000	\$ 29,291,892	78 Days
Bank Notes	0.55%	8/1/22	1,250,000	1,263,356	213 Days
Cash and Cash Equivalents	n/a	n/a	71,893	71,893	1 Day
Certificates of Deposit – Negotiable	0.13%-0.31%	1/20/22-10/19/22	53,100,000	53,100,680	59 Days
Commercial Paper	0.14%-0.23%	1/3/22-6/21/22	51,921,000	51,910,318	53 Days
Corporate Notes	0.16%-1.04%	1/10/22-4/29/22	26,252,000	26,314,514	43 Days
Money Market Fund	0.03%	n/a	1,000,000	1,000,000	7 Days
Repurchase Agreements	0.05%-0.06%	1/3/22-2/1/22	54,500,000	54,500,000	5 Days
U.S. Treasury Bills	0.05%	1/13/22	5,000,000	4,999,917	13 Days
U.S. Treasury Notes	0.08%	1/15/22	25,655,910	25,720,176	15 Days
			<u>\$ 248,049,803</u>	<u>\$ 248,172,746</u>	

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The yields shown in the preceding table represent the yield-to-maturity at original cost except for adjustable rate instruments, for which the rate shown is the coupon rate in effect at December 31, 2020. The weighted average maturities shown in the preceding table are calculated based on the stated maturity dates with the following exceptions: (1) floating or variable rate securities are assumed to have an effective maturity of the date upon which the securities interest rate next resets; (2) the effective maturity of callable securities is assumed to be its stated maturity unless the security had been called as of the reporting date, in which case the effective maturity would be assumed to be its called date; (3) for instruments subject to demand features, the effective maturity is assumed to be the period remaining until the principal amount of the security may be recovered through the demand feature and (4) the effective maturity of cash and cash equivalents is assumed to be one day.

5. Investments in Joint Ventures

The Agency has a participating interest in 11 joint ventures, which are accounted for on the equity method of accounting. With this method, the Agency reports its proportional share of revenue or expense on the statements of revenues, expenses and changes in net position. Upon dissolution of the respective joint venture, proceeds will be distributed according to the terms of the joint venture agreements of each respective member.

The following is a summary of the Agency’s investment in joint ventures balance:

	June 30, 2021	Capital Contributions	Distributions	Share of Operating Income	June 30, 2022
Investment in Commonwealth Fund III LLC	\$ 5,725,129	\$ 297,167	\$ -	\$ 379,807	\$ 6,402,103
Investments in NMTC entities	12,288	-	(172)	140	12,256
	<u>\$ 5,737,417</u>	<u>\$ 297,167</u>	<u>\$ (172)</u>	<u>\$ 379,947</u>	<u>\$ 6,414,359</u>

The Agency is a 98% member in the fund. The managing member is Massachusetts Technology Development Corporation. The primary purpose of the fund is to invest in entities broadly related to the technology industry, such as robotics, instrumentation, telecom, computers, software, healthcare information technology and mobile applications. The Agency has committed a total of \$5.0 million to the fund investment from the ETP. As of June 30, 2022, \$4,279,491 had been contributed to the fund.

The Agency has a 0.01% to 0.10% investment allocation in the Investments in NMTC entities. The Agency, via subsidiary entity MDNM was awarded, since the inception of the program, the right to allocate federal NMTC’s against \$341.0 million of its investors’ investments by the United States Department of the Treasury.

NMTC’s have been made available to banks, corporations, partnerships and funds that invest in MDNM. The proceeds of their investments will be reinvested in business and commercial development in low-income census tracts. As of June 30, 2022 the Agency had investments in 10 such entities. See Note 19.

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6. Small Business Recovery Loan Fund

The Agency remitted \$10.0 million to the Massachusetts Growth Capital Corporation’s Small Business Recovery Loan Fund established to assist small businesses impacted by the COVID-19 pandemic during fiscal year 2020. The Agency anticipated to be repaid as businesses repay loans to MGCC. As of June 30, 2020, a \$5.0 million provision loss was applied against the fund as it was anticipated that there may be some businesses that would be unable to repay loans. As of June 30, 2021, a \$4.1 million provision recovery was recognized to bring the fund to \$8.1 million, the anticipated repayment amount from MGCC. In July 2021, the Agency was repaid the \$8.1 million.

The following is a summary of the Agency’s Small Business Recovery Loan Fund balance:

	June 30, 2021	Contributions	Distributions	Provision Gain	June 30, 2022
Small Business Recovery Loan Fund	<u>\$ 8,114,030</u>	<u>\$ -</u>	<u>\$ (8,114,030)</u>	<u>\$ -</u>	<u>\$ -</u>

7. Loans Receivable

The following is a summary of the Agency’s loans receivable balance:

	June 30, 2021	Disbursements (Provisions, net)	(Collections)/ Write-offs	June 30, 2022
Loans receivable	\$ 99,277,105	\$ 37,154,849	\$ (21,209,835)	\$ 115,222,119
Less: allowance for loan loss	<u>(10,855,182)</u>	<u>(1,838,959)</u>	<u>-</u>	<u>(12,694,141)</u>
	<u>\$ 88,421,923</u>	<u>\$ 35,315,890</u>	<u>\$ (21,209,835)</u>	<u>\$ 102,527,978</u>

Most loans are collateralized by a first or shared first position in the underlying collateral. As of June 30, 2022, 8 loans totaling \$7.8 million are collateralized by second positions in the underlying property. Also, as of June 30, 2022, 3 loans totaling \$0.7 million are collateralized by third and fourth positions. As of June 30, 2022, one loan totaling \$0.02 million is unsecured.

There were approximately \$1.6 million net loans receivable that were considered nonaccrual loans as of June 30, 2022. All payments received from borrowers for nonaccrual loans are applied to the principal balance of the loan.

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8. Interest Receivable

The following is a summary of the Agency's interest receivable balance at June 30, 2022:

Investment interest	\$ 98,598
Loan interest	371,249
Lease interest	28,319
	<u>\$ 498,166</u>

Interest receivable includes amounts earned but not received on both investments, loans and leases, net of an allowance for doubtful accounts. When the Agency believes the collectability of the interest is unlikely, a reserve against interest is charged as a component of the allowance for doubtful accounts. As of June 30, 2022 no allowance was deemed necessary.

9. Predevelopment and Brownfield Receivables

The following is a summary of the Agency's Predevelopment and Brownfield receivables as of June 30, 2022:

	June 30, 2021	Disbursements (Provision, net)	(Collections)/ Write-offs	June 30, 2022
Predevelopment and Brownfield receivables	\$ 16,978,613	\$ 104,545	\$ (7,140,069)	\$ 9,943,089
Less: accumulated provision	<u>(16,084,221)</u>	<u>(295,714)</u>	<u>6,842,754</u>	<u>(9,537,181)</u>
	<u>\$ 894,392</u>	<u>\$ (191,169)</u>	<u>\$ (297,315)</u>	<u>\$ 405,908</u>

Predevelopment and Brownfield receivables represent amounts advanced to organizations for the purpose of conducting market analysis and feasibility studies for expansion of operations.

Advanced funds are recovered in accordance with individual terms as stated in the memoranda of agreement and evaluation of collectability.

In addition to the advances noted above, the Agency awarded approximately \$2.2 million of Predevelopment and Brownfield grant awards during fiscal year 2022 which are included in the statement of revenues, expenses and changes in net position.

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10. Capital Assets

A summary of changes in capital assets for the year ending June 30 is as follows:

	June 30, 2021	Additions/ (Transfers)	Disposals/ Transfers	June 30, 2022
Capital:	(As Restated)			
Land	\$ 6,451,007	\$ -	\$ (39,573)	\$ 6,411,434
Building	38,458,329	529,312	(7,968,770)	31,018,871
Buildings/land/tenant improvements	7,261,060	18,753	(2,416,156)	4,863,657
Infrastructure	146,250,019	963,653	(1,876,043)	145,337,629
Equipment	7,788,322	154,372	(165,724)	7,776,970
Office equipment	4,834,144	128,268	(55,061)	4,907,351
Construction in progress	833,037	14,345,928	-	15,178,965
Assets held for sale	12,200,516	85,381	3,480,140	15,766,037
Subtotal	<u>224,076,434</u>	<u>16,225,667</u>	<u>(9,041,187)</u>	<u>231,260,914</u>
Less: accumulated depreciation				
Building	(30,148,351)	(743,966)	4,744,647	(26,147,670)
Buildings/land/tenant improvements	(5,944,347)	(258,666)	2,299,397	(3,903,616)
Infrastructure	(90,379,910)	(5,609,082)	218,954	(95,770,038)
Equipment	(5,734,212)	(523,925)	134,526	(6,123,611)
Office equipment	(4,707,407)	(94,706)	55,060	(4,747,053)
	<u>(136,914,227)</u>	<u>(7,230,345)</u>	<u>7,452,584</u>	<u>(136,691,988)</u>
Total	<u>\$ 87,162,207</u>	<u>\$ 8,995,322</u>	<u>\$ (1,588,603)</u>	<u>\$ 94,568,926</u>

* Certain items from the previously issued 2021 financial statements were restated to conform to current year's presentation due to the adoption of GASB No. 87

Devens

As of June 30, 2022, the Agency had cumulative net costs associated with the development of Devens, including utilities, of approximately \$78.9, which are included in capital assets. The related depreciation expense for the year ended June 30, 2022 was approximately \$6.6 million.

The Agency had a total of one lot sale at Devens during fiscal year 2022. The lot sale was deferred and the gain on sale was reported as other liabilities at June 30, 2022 as the conditions in the repurchase clause had not been satisfied by year end. The sale resulted in gross sales proceeds of \$3,017,000 and net gains of \$1,128,466.

Springfield

The Agency purchased a building at 1550 Main Street in Springfield, Massachusetts in September 2009 for a purchase price of \$2.5 million. The Agency has cumulative net costs associated with 1550 Main Street of approximately \$3.5 million as of June 30, 2022 which is included in assets held for sale. The cumulative net costs were reclassified from capital assets to assets held for sale during the fiscal year because the property is currently being marketed for sale. The related depreciation expense for the year ended June 30, 2022 was \$418,271. On November 1, 2022, the Agency sold this building. The sale resulted in gross sales proceeds of \$6,000,000 and a net gain of approximately of \$2,200,000.

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Taunton

In January 2012, the Agency, in partnership with TDMDC, purchased from the Commonwealth the former Dever State School core campus in Taunton. The Agency has cumulative net redevelopment capital on the property of approximately \$9.4 million as of June 30, 2022 which is included in assets held for sale.

11. Leases

The Agency as a Lessor:

In accordance with GASB No. 87, the Agency recognized a lease receivable and a deferred inflows of resources for leases the Agency deems applicable to GASB No. 87. As a lessor, the Agency leases office, commercial and retail space in Springfield and Devens, Massachusetts under long-term agreements at market rates with terms ranging from 1 to 40 years. Some leases are short-term leases or some leases include provisions for rent changes based on the consumer price index, resulting in additional variable lease revenues that are not included in the measurement of the lease receivables. The lease receivable is measured at incremental borrowing rates ranging from 3.5% to 4.0%.

A summary of changes in lease receivable for the year ended June 30 is as follows:

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Lease Revenue Reduction</u>	<u>June 30, 2022</u>
Devens building	\$ 1,378,123	\$ 50,164	\$ (769,587)	\$ 658,700
Springfield building	6,648,834	-	(959,140)	5,689,694
Devens land	4,426,637	-	(128,285)	4,298,352
	<u>\$ 12,453,594</u>	<u>\$ 50,164</u>	<u>\$ (1,857,012)</u>	<u>\$ 10,646,746</u>

A summary of changes in deferred inflows of resources for the year ended June 30 is as follows:

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Lease Revenue Reduction</u>	<u>June 30, 2022</u>
Devens building	\$ 1,351,509	\$ 50,164	\$ (759,788)	\$ 641,885
Springfield building	6,511,863	-	(1,044,114)	5,467,749
Devens land	4,350,285	-	(215,859)	4,134,426
	<u>\$ 12,213,657</u>	<u>\$ 50,164</u>	<u>\$ (2,019,761)</u>	<u>\$ 10,244,060</u>

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Minimum future lease receipts from long-term leases is as follows:

Years ending June 30:	<u>Principal</u>	<u>Interest</u>
2023	\$ 1,324,731	\$ 375,842
2024	1,307,721	330,099
2025	1,227,446	283,505
2026	794,888	247,511
2027	737,370	219,386
2028-2032	2,090,837	802,905
2033-2037	1,010,716	523,544
2038-2042	286,486	401,781
2043-2047	326,298	342,484
2048-2052	398,305	270,248
2053-2057	486,561	181,712
2058-2062	655,387	73,792
	<u>\$ 10,646,746</u>	<u>\$ 4,052,809</u>

The Agency as a Lessee:

Also in accordance with GASB No. 87, the Agency recognized a lease liability and a leased asset, net, for leases in which the Agency is a lessee and leases equipment or office space under long-term agreements at market rates with terms ranging from 1 to 3 years. Some leases are short-term leases or some leases include provisions for rent changes based on the consumer price index, resulting in additional variable lease revenues that are not included in the measurement of the lease liability. The lease liability is measured at incremental borrowing rates ranging from 3.5% to 4.0%.

A summary of changes in lease liability for the year ended June 30 is as follows:

	<u>June 30, 2021</u>	<u>Additions due to Modifications/ Renewals</u>	<u>Reductions due to Payments/ Modifications</u>	<u>June 30, 2022</u>
Building	\$ 4,960,437	\$ 52,743	\$ (1,344,555)	\$ 3,668,625
Equipment	199,301	-	(158,208)	41,093
	<u>\$ 5,159,738</u>	<u>\$ 52,743</u>	<u>\$ (1,502,763)</u>	<u>\$ 3,709,718</u>

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Minimum future lease payments from long-term leases is as follows:

	<u>Principal</u>	<u>Interest</u>
Years ending June 30:		
2023	\$ 1,281,388	\$ 104,435
2024	1,260,954	61,500
2025	1,167,376	16,973
	<u>\$ 3,709,718</u>	<u>\$ 182,908</u>

A summary of changes in leased assets for the year ended June 30 is as follows:

	<u>June 30, 2021</u>	<u>Additions/ (Transfers)</u>	<u>Disposals/ Transfers</u>	<u>June 30, 2022</u>
Leased assets being depreciated:				
Building	\$ 5,290,646	\$ 52,743	\$ (9,006)	\$ 5,334,383
Equipment	269,049	-	-	269,049
	<u>5,559,695</u>	<u>52,743</u>	<u>(9,006)</u>	<u>5,603,432</u>
Less accumulated depreciation				
Building	(1,195,702)	(1,190,263)	-	(2,385,965)
Equipment	(111,789)	(111,789)	-	(223,578)
	<u>(1,307,491)</u>	<u>(1,302,052)</u>	<u>-</u>	<u>(2,609,543)</u>
Net leased assets	<u>\$ 4,252,204</u>	<u>\$ (1,249,309)</u>	<u>\$ (9,006)</u>	<u>\$ 2,993,889</u>

12. Outstanding Loan, Bond Issuance and Other Commitments

Loans

The Agency issued loans under its economic development programs aggregating \$37.2 million during fiscal year 2022. The Agency has committed to issuing an additional \$8.3 million of loans as of June 30, 2022.

Bond Issuance Program

The Agency's Bond Issuance Program assisted in the issuance of taxable and tax-exempt bonds and lease transactions on behalf of client institutions through its bond financing program on 71 projects aggregating approximately \$1.6 billion during fiscal year 2022. These debt obligations are conduit transactions and do not constitute a debt or liability of the Agency, therefore, these financing transactions are not included in the accompanying financial statements. The Agency earned bond issuance fee revenues related to these financings of approximately \$5.9 million in fiscal year 2022 and are included as a component of bond issuance and New Markets Tax Credit fees in the statement of revenues, expenses and changes in net position.

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Commitments

The Devens Electric Utility Division uses Master Power Supply Agreements and Purchase Power Agreements (PPAs) to procure necessary power supply requirements from time to time as market and load growth conditions dictate. The Devens Electric Utility Division secured 66% of its 2022 power supply requirements using confirmations in place with NextEra, Shell Energy, Macquarie, and BP Energy. 19% was provided by wind, solar and hydro renewables with the balance of 15% being secured through the ISO-NE Day Ahead and Real Time energy market.

Additional confirmation transactions and long term PPAs are in place with a blend of different providers in varying quantities to secure between 30% and 75% of the load requirements from 2023 through 2027. Planning for the future in meeting the Commonwealths goal of carbon free power by 2050, by 2027 approximately 39% of its future power supply needs qualify as carbon free through long-term contracts in place or being negotiated including solar power, a wind powered turbine facility, several hydroelectric providers and one nuclear power provider. The energy supply portfolio is reviewed every quarter with our power supply consultant, Energy New England, to review positions and make additional procurement transactions as needed.

The current renewable power supply portfolio mentioned above consists of a blend of solar generated power from 10 megawatts of third-party owned photovoltaic projects at Devens, wind generated power by Saddleback Wind, a 12-turbine wind project located in Carthage, Maine, and hydroelectric power produced by the FirstLight Cabot/Turner Falls hydro plant located in Montague, Massachusetts. This represents approximately 20% of the total current power supply needs of the Devens electric utility supplied from renewable resources.

The Agency has concluded that the contracts noted above are not subject to GASB No. 53. The hedging contracts noted above entered into by the Devens Electric Utility Division are considered normal purchases and sales contracts for utilities as part of the ongoing operations of the Devens Electric Utility Division. These activities are subject to the normal use exclusion provided for in GASB No. 53 and are not required to be reported as derivative instruments.

The Devens Electric Utility Division has also entered into an Operation and Maintenance Agreement with the Town of Wellesley, MA for the management and operation of the Electric System. The current agreement expires June 30, 2024. At that time, the contract may be extended for a five-year term expiring in 2029 and one final four-year term expiring in 2033.

13. Bonds Payable

Electric System Utility Bond

During fiscal 2001, the Agency issued the Series 2001 Bonds for the Electric System at Devens which totaled approximately \$10.6 million. The Series 2001 Bonds were used to finance the design, construction, installation and associated costs of certain capital improvements to the Electric System at Devens and to fund reserves for future capital upgrades.

In an effort to lower the weighted average interest rate on the bonds, the Agency refunded the bonds in December 2011 and issued Devens Electric System Refunding Revenue Bonds, Series 2011 (Series 2011 Bonds). Principal of \$8,775,000 was repaid in relation to the Series 2001 Bonds and new principal of \$8,145,000 was issued.

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In another effort to lower the interest rate on the bonds, the Agency refunded the bonds in September 2021 and issued Devens Electric System Refunding Revenue Bonds, Series 2021 (Series 2021 Bonds). Principal of \$4,855,000 was repaid in relation to the Series 2011 Bonds and new principal of \$4,755,000 was issued.

The following is a summary of the Agency’s bonds payable activity for the year ended June 30:

	Interest Rate at June 30, 2022	June 30, 2021	Additions	Principal Payments/ Amortization	June 30, 2022	Current Portion
Devens Electric System Utility Bond	1.6401%	\$ 4,855,000	\$ 4,755,000	\$ (4,990,000)	\$ 4,620,000	\$ 485,000
Less Discount		(4,591)	-	4,591	-	
		<u>\$ 4,850,409</u>	<u>\$ -</u>	<u>\$ (4,985,409)</u>	<u>\$ 4,620,000</u>	

The Series 2021 Bonds are collateralized by a pledge of the Electric System's revenues and certain funds and accounts established under the bond. Total principal and interest remaining on the bonds is \$4,961,880, payable through June 30, 2031. For the current fiscal year, principal and interest expense for the Series 2021 Bonds was \$179,538. Total revenues of the Devens Electric Utility System were \$19,988,793 for the current fiscal year.

The bond documents require the maintenance of certain funds. Below are certain funds balances as of June 30, 2022 which are included in restricted cash and cash equivalents on the statements of net position.

- The Revenue Fund had a balance of \$3,790,647 which was included in the current cash and cash equivalents-restricted for use on the statement of net position. All revenues generated by the Electric System, exclusive of interest income, are deposited into the Revenue Fund. Funds are transferred from the Revenue Fund to other funds of the Electric System according to the bond resolution agreement. No funds were transferred during fiscal year 2022.
- The Capital Upgrade Reserve Fund had a balance of \$2,841,815. The Capital Upgrade Reserve Fund may be used to fund capital improvements to the Electric System. If excess funds exist in the Capital Upgrade Reserve Fund, then these excess funds may be used to cover any operating shortfalls. No funds were transferred during fiscal year 2022.
- The Operating/Rate Stabilization Reserve Fund had a balance of \$1,002,515 which was included in the noncurrent cash and cash equivalents-restricted for use on the statement of net position. The Operating/Rate Stabilization Reserve Fund may be used to fund operating expenses of the Electric System when there are not sufficient funds available from operations. No funds were transferred in fiscal year 2022.

Excess balances in the Revenue Fund may be transferred to the Agency, free and clear of the lien of the bond resolution, if all funding requirements are met and the debt service coverage requirement of 1.5 has been met, cumulatively, during the 12 consecutive months prior to the transfer date.

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Principal payments are due annually through 2031. Total interest expense related to the bonds was \$160,184 for the year ended June 30, 2022.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default as long as the Agency complies with specific requirements included in the agreement. As of June 30, 2022, the debt service coverage was not met. The Agency, as allowed in the bond documents, will utilize the cure period and increased rates in April 2022 and will have further rate increases during fiscal year 2023.

Scheduled principal and interest payments on all the bonds payable are shown below.

Fiscal Year	Principal	Interest	Total Debt Service
2023	\$ 485,000	\$ 71,133	\$ 556,133
2024	490,000	63,130	553,130
2025	500,000	54,998	554,998
2026	505,000	46,750	551,750
2027	515,000	38,372	553,372
2028-2031	2,125,000	67,497	2,192,497
	<u>\$ 4,620,000</u>	<u>\$ 341,880</u>	<u>\$ 4,961,880</u>

14. Advances from the Commonwealth

The following is a summary of the Agency's Advances from the Commonwealth as of June 30:

	2021	Additions	Payments/ Amortization	2022
DEP-wastewater	\$ 6,794,862	\$ -	\$ (596,793)	\$ 6,198,069
Premium	3,768	-	(1,190)	2,578
DEP-water	-	4,855,759	-	4,855,759
	<u>\$ 6,798,630</u>	<u>\$ 4,855,759</u>	<u>\$ (597,983)</u>	<u>\$11,056,406</u>

In 2001 and 2004, the DEP approved loans to the Agency. In addition, The Massachusetts Water Abatement Trust, currently known as the Massachusetts Clean Water Trust (MCWT), issued loans to the Agency. Collectively, these loans were advanced to construct a wastewater treatment facility at Devens. These loans are being paid back to MCWT through revenues generated from the processing of wastewater at Devens and surrounding communities. These loans are part of a pooled loan program bond within the MCWT. The Agency and the Commonwealth have entered into a contract providing that the Commonwealth shall pay contract assistance on behalf of the Agency with respect to partial debt service on these loans. Repayment of the loans began on February 1, 2002.

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The loans mature in August 2024 and February 2031. Principal and interest expense related to these loans was \$596,793 and \$308,095 for the year ended June 30, 2022, respectively. During fiscal year 2022, the Commonwealth paid \$149,212 in principal payments and \$213,414 in interest expense, respectively, which is included in total interest expense.

The MCWT loan agreement requires the maintenance of an adequate annual debt service coverage ratio. As of June 30, 2022, the necessary debt service coverage was met.

The scheduled principal and interest payments on the MCWT loan at June 30, 2022, are as follows:

Fiscal Year	Principal	Interest	Total Debt Service
2023	\$ 617,541	\$ 289,265	\$ 906,806
2024	638,289	140,950	779,239
2025	659,037	112,164	771,201
2026	663,935	198,187	862,122
2027	684,683	172,951	857,634
2028-2031	2,934,584	323,096	3,257,680
	<u>\$ 6,198,069</u>	<u>\$ 1,236,613</u>	<u>\$ 7,434,682</u>

In 2022, the DEP approved a zero interest loan to the Agency with an obligation amount of \$27,300,000 to construct two water treatment plants at Devens for iron and manganese removal and PFAS treatment for existing Devens wells. The MCWT issued another loan to the Agency. The loan will be paid back to the trust through revenues generated from the sale of water in Devens and to surrounding communities. Principal repayment of this loan begins in July 2023. The loan matures in July 2042.

The scheduled principal payments on this loan are not due to start until fiscal year 2024 and will be determined at the end of the drawdown period based on the total amount drawn down on the loan.

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15. Tax Incremental Financing Agreements/Special Tax Assessments

The Agency is committed to providing a supportive environment for business and economic development in the Devens Regional Enterprise Zone established by Chapter 498 of the Massachusetts Acts of 1993, as amended. The Agency may agree to temporary exemptions of incremental property taxes Tax Incremental Financing (TIF) or special tax assessments (STA) with businesses which agree to locate or expand in Devens.

The Agency had two TIF agreements outstanding as of June 30:

Purpose	Percentage of Tax Reduction	Value
Tax Incremental Financing:		
Biopharmaceutical company to construct and operate large scale cell culture facility	35%	\$ 1,095,375
Manufacturing, research and development facility	85% *	53,162
		<u>\$ 1,148,537</u>

* TIF percentage is based on qualifying project incremental value for the fiscal year (change in value each fiscal year only)

Each TIF agreement was negotiated under provisions of MGL Chapter 59, Section 5, clause 51 and MGL Chapter 40, Section 59 allowing the Agency to grant temporary incremental property tax exemptions. The STA was granted in accordance with Chapter 23A, Section 3E of the MGL, allowing the Agency to grant special tax assessments.

The Agency uses the TIF and STA agreements as an economic development incentive at Devens. The execution of such agreements is intended to promote the creation or retention of full-time jobs in Devens, increase the Devens tax and revenue base and enhance the overall quality of life in Devens. All agreements contain annual reporting requirements to the Agency on employment levels. If a business fails to comply with its obligations under an agreement, the Agency will give written notice of such failure and provide an opportunity to meet with the Agency to discuss such failure. Continued failure to comply with obligations could result in the revocation of the related agreement.

16. Other Related Party Transactions

The following related party transactions are not reflective of consideration of what these arrangements might have been if they occurred in an arms-length transaction.

The Agency oversees the management and development of the Jodrey State Fish Pier (Pier) facilities, which are leased to the Agency by the Department of Conservation and Recreation (representing the Commonwealth). The Pier reimburses the Agency for the Pier’s direct salary costs paid by the Agency, which amounted to \$122,998 for the year ended June 30, 2022. The Pier also reimburses the Agency for Agency staff time and operating expenses paid by the Agency, which amounted to \$186,465 for the year ended June 30, 2022.

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The Agency also oversees management services for Cape Ann Fisheries Development Corporation (Cape Ann), a non-profit corporation formed for construction and management of a multi-tenant seafood processing facility at the State Fish Pier in Gloucester. In fiscal year 2001, the Agency provided two loans to Cape Ann in the amounts of \$2.3 million and \$500,000 for construction expenses and remediation of environmental conditions at the seafood processing facility. In fiscal year 2013, these loans were refinanced into four separate notes (Notes A and B for each loan). The balance on the Notes A loans receivable, net of allowance for loan loss, as of June 30, 2022, was \$430,274 and \$119,440. The Agency wrote off both Notes B during fiscal year 2013 as they were deemed uncollectible. These loans are included in loans receivable on the statement of net position.

In September 2009, the Agency refinanced another Cape Ann loan in the amount of \$2.7 million. In fiscal year 2013, this loan was refinanced into two separate notes (Notes A and B). The balance on the Note A loan receivable, net of allowance for loan loss, was \$686,702 as of June 30, 2022. The Agency wrote off Note B during fiscal year 2013 as it was deemed uncollectible.

The Agency donated \$147,108 of Agency staff time and \$21,705 of Cape Ann direct salary costs to Cape Ann during fiscal year 2022. These donated costs covered management services provided to Cape Ann during the fiscal years.

The Agency is eligible to receive an administrative fee of up to 0.09% of the average daily assets of the STAR Fund. In May 2022, the Agency started to receive an additional 0.01% administrative fee to recoup fees lost when the STAR Fund interest rate was zero. The Agency's STAR Fund holdings held on its own account as of June 30, 2022, were approximately \$112.3 million and are included in cash and cash equivalents in the statement of net position. During the year ended June 30, 2022, the Agency received administrative fees of \$133,718 from the STAR Fund. The administrative fees are reported in bond issuance and new markets tax credit fees in the statement of revenues, expenses and changes in net position.

17. Benefit Plans

The Agency contributed approximately \$1.9 million to employee benefit plans described below during the year ended June 30, 2022.

Deferred Compensation Plan

The Agency offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees of the Agency, permits employees to defer a portion of their salaries. The Agency matches employees' deferrals up to 5% of the participants' salary, which are contributed to the 401(a) defined contribution plan. The participants' rights to the Agency contributions vest immediately. Employees may borrow up to 50% of their vested accrued balance in the account. Otherwise, the vested balance is not available to employees until termination, retirement, permanent disability, or death.

All contributions made under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of the participants and their beneficiaries.

Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements

Effective December 31, 1997, Section 401(a) of the IRC was amended by Section 1448 of the Small Business Job Protection Act of 1996 which provides that governmental deferred compensation plans must hold all assets and income of the plan in trust for the exclusive benefit of participants and their beneficiaries. In accordance with the legislation described above, the vested assets and associated liability of the deferred compensation plan assets are not included in the statement of net position.

401(a) Defined Contribution Plan

The Agency provides for retirement through a contribution to a 401(a) plan for eligible employees. The contribution is equal to a percentage of the employee's gross compensation earned each pay period. Currently, the Agency's contribution is 7.5% of the employee's gross compensation. Employees who began employment with the Agency on or after January 1, 1999 are subject to a three-year vesting schedule.

Employees may borrow up to 50% of their vested accrued balance in the 401(a) account. Otherwise, the vested balance is not available to employees until termination, retirement, permanent disability, or death.

The unvested portion of the 401(a) plan is recorded as an asset on the statement of net position. The total unvested portion of the 401(a) plan as of June 30, 2022 was approximately \$523,000.

Pension Plan

Certain employees of the Agency are eligible to participate in the Commonwealth State Retirement Systems Pension Plan (the State Plan) under a special funding situation where the Commonwealth is the non-employer sole contributor under GASB No. 68, *Accounting and Financial Reporting for Pensions*. An Actuarial valuation has been performed for the State Plan. These employees were included in the actuarial analysis with a net pension liability of \$2,902,705 as of June 30, 2022 which is owed by the Commonwealth and noted as part of the total State Plan's net pension liability. The State Plan's net pension liability and the State Plan's net position are disclosed in the footnotes and other required supplementary information of the Annual Comprehensive Financial Report of the Commonwealth as there are no liabilities to be recorded in the Agency's financial statements. The Agency has not included all required GASB No. 68 disclosures as GASB No. 68 is deemed immaterial to the Agency. Employees participating in the State Plan are not eligible for the contribution to the 401(a) plan.

Massachusetts Development Finance Agency
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As discussed in Note 1, in 1998, the Land Bank and MIFA merged to create the Agency. Prior to this merger, all Land Bank employees were participants in the State Plan; MIFA employees were not. All former Land Bank employees were given the option to stay in the State Plan or take part in the retirement plans being offered by the Agency. Any new employees hired after the merger were not eligible to participate in the State Plan, except for the union firefighters at Devens. The State Plan provides benefits including retiree health benefits to qualifying retirees. The programs are carried out by the Commonwealth. There are currently 24 employees in the State Plan. Neither the Land Bank nor the Agency have ever been charged for post-retirement benefits for its current employees or its retirees from the Commonwealth Group Insurance Commission (CGIC). The Agency's management has reviewed the requirements of GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, and believes the Agency is not liable for OPEB costs for current active or retired employees due to the following: there is no statutory requirement holding the Agency liable for OPEB costs; the Agency has never been billed by the CGIC for any OPEB costs and it is the legal opinion of the Agency's outside attorney that no evidence exists that indicates that the Agency is liable for these costs.

18. Segment Reporting

Devens Electric Utility Division

A separate financial statement for the Devens Electric Utility Division is published and is available upon request.

Summary financial information for the Devens Electric Utility Division is presented below:

Statement of Net Position as of June 30, 2022:

Assets	
Current assets	\$ 7,453,729
Noncurrent assets	4,145,573
Capital assets, net	8,107,906
Total assets	<u>\$19,707,208</u>
Liabilities and Net Position	
Current liabilities	\$ 2,394,450
Due to Massachusetts Development Finance Agency	946,894
Noncurrent liabilities	4,135,000
Total liabilities	<u>7,476,344</u>
Net position	
Net investment in capital assets	3,481,591
Restricted	8,749,273
Total net position	<u>12,230,864</u>
Total liabilities and net position	<u>\$ 19,707,208</u>

Massachusetts Development Finance Agency
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Notes to Financial Statements

Condensed Statement of Revenues, Expenses and Changes in Net Position for the year ended June 30, 2022:

Operating revenues	\$ 19,988,793
Operating expenses	(19,425,345)
Depreciation	<u>(1,287,895)</u>
Operating loss	(724,447)
Nonoperating expenses, net	<u>(278,171)</u>
Decrease in net position	(1,002,618)
Net position at beginning of year	<u>13,233,482</u>
Net position at end of year	<u><u>\$ 12,230,864</u></u>

Condensed Statement of Cash Flows for the year ended June 30, 2022:

Net cash provided by operating activities	\$ 1,415,361
Net cash used in capital and related financing activities	(662,588)
Net cash provided by investing activities	<u>(28,087)</u>
Net increase in cash and cash equivalents	724,686
Cash and cash equivalents at beginning of year	<u>7,203,475</u>
Cash and cash equivalents at end of year	<u><u>\$ 7,928,161</u></u>

19. New Markets Tax Credit Program

The Agency has accounted for its 0.01% to 0.10% ownership interests in the NMTC entities using the equity method of accounting. The total amount invested in these NMTC entities was \$12,256 as of June 30, 2022.

As part of the closing of the NMTC entities, the Agency could receive sub-allocation fees from the capitalized funds and such fees would be included in bond issuance and NMTC fees in the statements of revenues, expenses and changes in net position. The Agency receives such fees as organizational fees for structuring and organizing the sub-allocation of the new markets tax credits of the NMTC entities. No such sub-allocation fees were recognized during fiscal year 2022 as there were no new NMTC entity closings during the fiscal year.

The Agency receives an annual management fee for services related to managing the operations of the NMTC entities, including accounting, legal, management, technical and other services, as needed by the NMTC entities. Total management fees earned for fiscal year 2022 were \$635,000. As of June 30, 2022, management fees of \$325,271 remain unpaid to the Agency, and are included in accounts receivable and other assets on the statement of net position.

Massachusetts Development Finance Agency
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Notes to Financial Statements

The Agency may, from time to time, loan operating cash to the NMTC entities for professional services and be reimbursed at a later date. As of June 30, 2022, \$79,635 remains unpaid to the Agency.

20. Legal Matters

The Agency is subject to various legal proceedings and claims that arise in the ordinary course of business. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of the Agency.

21. Risk Management

The Agency is exposed to various risks of loss related to general property and casualty losses. Accordingly, the Agency carries general liability and property insurance policies. The Agency also carries insurance coverage for business automobile, workers compensation, director and officer liability, professional liability, cyber liability, crime and special excess liability.



RSM US LLP

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

Independent Auditor's Report

Board Members
Massachusetts Development Finance Agency

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 Massachusetts Development Finance Agency (the Agency), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 15, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses and significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs at item 2022-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Agency's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Agency's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

RSM US LLP

Boston, Massachusetts
December 15, 2022

Massachusetts Development Finance Agency
Supplemental Information
June 30, 2022
(unaudited)

	Brownfield Redevelopment		Emerging Technology		Cultural Facilities		Mass Development/ Charter School		Transformative Development Initiative		Devens		Devens Electric Utility Division		Devens Gas, Water, Wastewater Utility Divisions		Taunton Corp.		Eliminations	Total
	General Operations	Operating Technology	Facilities	HEFA Trust	Facilities	Charter School	Site Readiness	HEFA Trust	Mass Development/ Charter School	Facilities	CARES Act	Devens	Devens Electric Utility Division	Water, Wastewater Utility Divisions	Other	Taunton Corp.	Eliminations			
Assets																				
Current assets	\$ 54,258,077	\$ 7,705,589	\$ 36,080,980	\$ 8,636,446	\$ 761,430	\$ 35,152,261	\$ 8,542,479	\$ 22,415,092	\$ 348,448	\$ 28,510,164	\$ 7,453,729	\$ 4,145,573	\$ 2,559,305	\$ 62,499,087	\$ 666,300	\$ (9,534,162)	\$ (8,428,761)	\$ 266,056,125		
Noncurrent assets	119,965,279	1,153,981	12,567,377	-	8,113,251	(814,326)	-	9,346,379	2,294,591	13,046,985	4,145,573	22,610,519	(35,588)	-	-	-	-	183,965,260		
Capital assets, net	6,967,124	-	-	-	-	-	677,893	1,614,015	-	34,514,963	8,107,906	36,317,195	-	-	9,363,719	-	-	97,562,815		
Total assets	\$ 181,190,480	\$ 8,859,570	\$ 48,648,357	\$ 8,636,446	\$ 8,874,681	\$ 34,337,935	\$ 9,220,372	\$ 33,376,386	\$ 2,643,039	\$ 76,072,112	\$ 19,707,208	\$ 61,487,019	\$ 62,463,499	\$ 100,500,019	\$ 100,500,019	\$ (17,962,923)	\$ 547,584,200			
Liabilities																				
Current liabilities	\$ 9,479,138	\$ 3,039,770	\$ 473	\$ 5,668,053	\$ 4,986	\$ 105,139	\$ 5,297,900	\$ 4,933,035	\$ -	\$ 1,661,836	\$ 3,341,344	\$ 11,894,333	\$ 15,262,948	\$ 249,213	\$ (8,438,762)	\$ 51,288,868				
Noncurrent liabilities	1,971,278	-	-	-	-	-	3,710,187	8,570,933	-	8,570,933	4,135,000	26,362,472	-	-	-	-	-	55,862,072		
Total liabilities	11,450,416	3,039,770	473	5,668,053	4,986	105,139	5,297,900	8,633,222	-	10,232,769	7,476,344	30,950,158	41,625,420	249,213	(17,962,923)	106,770,940				
Deferred inflows of resources																				
Leases deferred inflows of resources	5,467,749	-	-	-	-	-	-	-	-	4,776,311	-	-	-	-	-	-	-	10,244,060		
Net position																				
Net investment in capital assets	6,959,226	-	-	-	-	-	677,893	1,614,015	-	34,512,814	3,481,591	25,083,710	-	9,363,719	-	-	-	81,692,968		
Restricted	520,674	5,819,800	48,647,884	2,968,393	8,869,695	34,232,796	3,242,479	23,129,149	2,643,039	26,550,218	8,749,273	5,453,151	20,438,800	417,087	-	-	191,684,538			
Unrestricted	156,792,415	5,819,800	48,647,884	2,968,393	8,869,695	34,232,796	3,922,472	24,743,164	61,063,032	12,230,864	30,536,861	20,838,079	9,780,806	-	-	-	157,191,694			
Total net position	164,272,315	5,819,800	48,647,884	2,968,393	8,869,695	34,232,796	3,922,472	24,743,164	61,063,032	12,230,864	30,536,861	20,838,079	9,780,806	-	-	-	430,569,200			
Total liabilities, deferred inflows of resources	\$ 181,190,480	\$ 8,859,570	\$ 48,648,357	\$ 8,636,446	\$ 8,874,681	\$ 34,337,935	\$ 9,220,372	\$ 33,376,386	\$ 2,643,039	\$ 76,072,112	\$ 19,707,208	\$ 61,487,019	\$ 62,463,499	\$ 100,500,019	\$ (17,962,923)	\$ 547,584,200				

Statements of Departmental Revenues, Expenses and Changes in Net Position

	Brownfield Redevelopment		Emerging Technology		Cultural Facilities		Mass Development/ Charter School		Transformative Development Initiative		Devens		Devens Electric Utility Division		Devens Gas, Water, Wastewater Utility Divisions		Taunton Corp.		Eliminations	Total
	General Operations	Operating Technology	Facilities	HEFA Trust	Facilities	Charter School	Site Readiness	HEFA Trust	Mass Development/ Charter School	Facilities	CARES Act	Devens	Devens Electric Utility Division	Water, Wastewater Utility Divisions	Other	Taunton Corp.	Eliminations			
Operating revenues																				
Operating expenses	\$ 14,633,630	\$ 96,866	\$ 967,856	\$ -	\$ -	\$ 175,415	\$ 1,660,000	\$ 23,715,595	\$ 53,364	\$ 17,953,428	\$ 19,988,793	\$ 12,295,351	\$ 1,001,788	\$ 536,030	\$ (26,259,790)	\$ 66,818,326				
Operating income (loss)	(19,653,069)	(788,788)	(631,073)	(851,071)	(137,462)	(466,981)	(1,511,015)	(3,336,806)	(152,236)	(17,019,513)	(2,071,324)	(12,557,918)	(698,509)	(318,029)	395,418	(78,240,292)				
Nonoperating revenues (expenses)	(5,019,439)	(691,922)	336,783	(851,071)	(137,462)	(291,566)	148,985	20,378,789	(98,872)	933,915	(724,447)	(62,567)	303,279	218,001	(25,864,372)	(11,421,966)				
Capital contributions (distributions)	(1,592,889)	8,115	(1,051,551)	1,271	(1,319,362)	28,729	17,993	79,626	378	(7,906)	(278,171)	52,647	55,281	-	31,652	(3,974,187)				
Increase (decrease) in net position	(18,121,774)	(1,113,526)	(1,113,526)	(933,976)	(933,976)	329,000	1,799,370	(400,871)	688,911	28,997	(1,002,618)	46,300	557,565	218,001	25,832,720	9,563,668				
Net position-beginning of year (as restated)	(24,734,102)	(1,797,333)	(714,768)	(1,152)	(2,390,800)	66,163	1,966,348	20,057,544	590,417	955,006	(1,002,618)	36,380	916,125	218,001	-	(5,832,485)				
Net position-end of year	189,006,417	7,617,133	49,362,682	2,967,241	11,260,495	34,166,633	1,956,124	4,685,620	2,052,622	60,108,026	13,233,482	30,500,481	19,071,954	9,562,905	-	436,401,685				
Net position-end of year	\$ 164,272,315	\$ 5,819,800	\$ 48,647,884	\$ 2,968,393	\$ 8,869,695	\$ 34,232,796	\$ 3,922,472	\$ 24,743,164	\$ 61,063,032	\$ 12,230,864	\$ 30,536,861	\$ 20,838,079	\$ 9,780,806	\$ -	\$ -	\$ 430,569,200				

Massachusetts Development Finance Agency

(A Component Unit of the Commonwealth of
Massachusetts)

Uniform Guidance
Compliance Report
Year Ended June 30, 2022

Contents

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

Independent Auditor's Report

Board Members
Massachusetts Development Finance Agency

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 Massachusetts Development Finance Agency (the Agency), a component of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 15, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses and significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs at item 2022-001 that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

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

Agency's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Agency's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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

RSM US LLP

Boston, Massachusetts
December 15, 2022



RSM US LLP

**Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
Massachusetts Development Finance Agency

Report on Compliance for Each Major Federal Program

We have audited Massachusetts Development Finance Agency's (the Agency) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Agency's major federal program for the year ended June 30, 2022. The Agency's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards 4*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Agency and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Agency's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Agency's federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Agency's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Agency's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Agency's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Agency's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of the Federal Awards Required by Uniform Guidance

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of the Agency as of and for the year ended June 30, 2022, and have issued our report thereon dated December 15, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

RSM US LLP

Boston, Massachusetts

January 25, 2023, except for our report on the Schedule of Expenditures of Federal Awards (SEFA) for which our date is December 15, 2022

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022**

Cluster Title Federal Grantor/ Pass-Through Grantor/Program	Federal Assistance Listing Number	Grant Contract Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Economic Adjustment Assistance (EAA) Cluster:				
U.S. Department of Commerce				
Direct awards:				
COVID 19-Economic Development Administration CARES Act Revolving Loan Fund	11.307	01-79-14997	N/A	\$ 2,953,117
Total U.S. Department of Commerce/EAA Cluster				<u>2,953,117</u>
U.S. Department of Education				
Direct awards:				
Charter School Loan Guarantee Fund	84.354A	N/A	N/A	33,729,921
Total U.S. Department of Education				<u>33,729,921</u>
Total EAA Cluster				<u>36,683,038</u>
Federal Transit Cluster:				
U.S. Department of Transportation				
Pass-through from the Commonwealth of Massachusetts				
Massachusetts Department of Transportation	20.507	N/A	09514 FBP-FBP-0-219-X00	78,609
Total U.S. Department of Transportation				<u>78,609</u>
U.S. Department of Homeland Security				
Pass-through from the Commonwealth of Massachusetts				
Massachusetts Emergency Management Agency	97.044	N/A	FY21EMPG2100000DEVEN	2,700
Total U.S. Department of Homeland Security				<u>2,700</u>
Total Federal Transit Cluster				<u>81,309</u>
Total expenditures of federal awards				<u>\$ 36,764,347</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Massachusetts Development Finance Agency (the Agency), a component unit of the Commonwealth of Massachusetts, under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, changes in net position or cash flows of the Agency.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures/expenses are not allowable or are limited as to reimbursement.

Note 3. Indirect cost rate

The Agency has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4. Provided to Subrecipients

The Agency did not provide any funds to subrecipients.

**Note 5. Economic Adjustment Assistance Cluster: Economic Development Administration
(ALN 11.307)**

The Agency administered a revolving loan fund, which was funded by the COVID-19 CARES Act Economic Adjustment Assistance Program to alleviate sudden and severe economic dislocation caused by the coronavirus pandemic. Two new loans were closed during the year ended June 30, 2022, with principal outstanding of \$2,738,101 and \$165,350 noted in cash and investment balances as of June 30, 2022. As of June 30, 2022 and June 30, 2021, there were loans outstanding of \$2,738,101 and \$1,672,204 with reserves of \$263,622 and \$161,052 for a total net loan receivable balance of \$2,474,479 and \$1,511,152, respectively. The award also provides a total of \$193,469 to defray the cost of administering the program. During the year ended June 30, 2022, the program also incurred \$49,666 of program specific expenses.

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)**

**Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2022**

Note 6. Charter School Loan Guarantee Fund (ALN 84.354A)

The Charter School Fund program currently has a total capitalization of \$75,025,000 derived from six grant awards from the U.S. Department of Education (U.S. DOE), matching private guarantees from The Local Initiatives Support Corporation and matching guarantees from the Agency's General Fund.

During fiscal year 2005, the Agency was awarded \$10,025,000 from the U.S. DOE to enable the Agency to facilitate the financing of charter schools through the issuance of loan guarantees. The first tier of the 2005 funding includes the \$10,025,000 from the U.S. DOE and a \$500,000 matching guarantee provided by the Agency's General Fund. The second tier of the 2005 funding included a \$2,000,000 guarantee from Local Initiatives Support Corporation and a \$500,000 guarantee from the Agency's General Fund.

During fiscal year 2014, the Agency was awarded another \$5,000,000 towards this program by the U.S. DOE and the Agency's General Fund may provide up to \$5,000,000 of match funding for guarantees.

During fiscal years 2015 and 2016, the Agency was awarded another \$3,900,000, and \$1,100,000, respectively, under one grant, and the Agency's General Fund may provide up to \$5,000,000 of match funding for guarantees.

During fiscal year 2018, the Agency was awarded another \$8,000,000 towards this program by the U.S. DOE and the Agency's General Fund may provide up to \$8,000,000 of match funding for guarantees.

During fiscal year 2020, the Agency was awarded another \$5,000,000 towards this program by the U.S. DOE. Additionally, second tier support of \$5,000,000 was provided in fiscal 2021 and includes support from the Agency's General Fund providing up to \$2,500,000 of matching funds and Local Initiatives Support Corporation providing a \$2,500,000 guarantee.

During fiscal year 2021, the Agency was awarded another \$8,000,000 towards this program by the U.S. DOE and the Agency's General Fund may provide up to \$8,000,000 of match funding for guarantees.

These grant funds from U.S. DOE are held as short-term investments by the Agency under the terms of the grant and can be used to pay claims on its guarantees. Interest earned on the funds remain within the fund. During the year ended June 30, 2022, the Agency guaranteed four new charter school loans for an original guarantee amount of \$9,230,000. As of June 30, 2022, 21 guarantees were outstanding for a total of \$33,272,627 with reserves of \$814,326. No funds for guarantees were disbursed during the year ended June 30, 2022. An amendment to the Performance Agreement in September 2009 allows the Agency to be reimbursed for program specific expenses. During the year ended June 30, 2022, the program incurred \$457,294 of program specific expenses which were charged to the fund.

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)**

**Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2022**

I. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program</u>
84.354A	Charter School Loan Guarantee Fund

Dollar threshold used to distinguish between Type A and type B programs: \$ 1,102,930

Auditee qualified as low-risk auditee? Yes No

(Continued)

**Massachusetts Development Finance Agency
(A Component Unit of the Commonwealth of Massachusetts)**

**Schedule of Findings and Questioned Costs (Continued)
Fiscal Year Ended June 30, 2022**

II. Financial Statement Findings

A. Internal Control over Financial Reporting

Finding # 2022-001

Condition:

During the current year, the Massachusetts Development Finance Agency (the Agency) was subject to a phishing attack. As a result of that attack, a third-party actor (TPA) was able to access the Agency's email system. The TPA intercepted an internal email and misdirected a payment intended for an MDFA program vendor.

Effect:

As a result of this intrusion, an immaterial amount of money was misdirected to the wrong bank account and misappropriated.

Cause:

The initial intrusion was the result of an individual improperly clicking a link in a malicious email which created the opportunity for the TPA to access the system. Insufficient preventive controls allowed the funds to be misdirected and not detected at the point of the transaction.

Criteria:

Preventive and detective controls should be implemented to mitigate against the risk of this type of event. It should be noted that the detective controls at the Agency identified this issue the day after it occurred. Those controls were functioning as designed.

Management Recommendation:

A set of complimentary preventive controls should be in place to ensure that if such an event were ever to occur in the future, these additional controls would prevent the payment from being made at all.

It should be noted that the Agency was able to fully recover the entire payment. The Agency also implemented proper preventive controls within 3 months of this event. The Agency has also enhanced its training programs related to phishing attacks and other potential cyber security matters.

B. Compliance Findings

No matters to report.

III. Findings and Questioned Costs for Federal Awards

A. Internal Control over Financial Reporting

No matters to report.

B. Compliance Findings

No matters to report.



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December 15, 2022

Finding # 2022-001 Corrective Action Plan

Condition:

During the fiscal year ending June 30, 2022, the Massachusetts Development Finance Agency (the Agency) was subject to a phishing attack. As a result of that attack, a third party actor (TPA) was able to access the Agency's email system. The TPA intercepted an internal email and misdirected a payment intended for an MDFA program vendor.

Effect:

As a result of this intrusion, an immaterial amount of money was misdirected to the wrong bank account and misappropriated.

Cause:

The initial intrusion was the result of an individual improperly clicking a link in a malicious email which created the opportunity for the TPA to access the system. Insufficient preventive controls allowed the funds to be misdirected and not detected at the point of the transaction.

Criteria:

Preventive and detective controls should be implemented to mitigate against the risk of this type of event. It should be noted that the detective controls at the Agency identified this issue the day after it occurred. Those controls were functioning as designed.

Recommendation:

A set of complimentary preventive controls should be in place to ensure that if such an event were ever to occur in the future, these additional controls would prevent the payment from being made at all.

It should be noted that the Agency was able to fully recover the entire payment. The Agency also implemented proper preventive controls within 3 months of this event. The Agency has also enhanced its training programs related to phishing attacks and other potential cyber security matters.

A handwritten signature in black ink, appearing to read "Simon R. Gerlin".

Simon R. Gerlin
EVP and Chief Financial Officer

Charles D. Baker
Governor

Karyn E. Polito
Lieutenant Governor

Mike Kennealy
Secretary of Housing & Economic Development
Chairman

Dan Rivera
President and CEO