

Massachusetts Life Sciences Center

**Financial Statements with Management's
Discussion and Analysis
June 30, 2010 and 2009**

Massachusetts Life Sciences Center
Index
June 30, 2010 and 2009

	Page(s)
Report of Independent Auditors	1
Management's Discussion and Analysis	2-4
Financial Statements	
Balance Sheets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	8-16

Report of Independent Auditors

To the Board of Directors of the
Massachusetts Life Sciences Center

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses, and changes in net assets and statements of cash flows present fairly, in all material respects, the financial position of the Massachusetts Life Sciences Center (the "Center") as of June 30, 2010 and 2009, and the results of operations and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 2 to 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

September 23, 2010

Massachusetts Life Sciences Center Management's Discussion and Analysis (unaudited) June 30, 2010 and 2009

As the Board of Directors of the Massachusetts Life Sciences Center (the "Center") we offer the following narrative overview and analysis of the financial activities of the Center for the fiscal years ended June 30, 2010, 2009 and 2008. This unaudited management discussion and analysis should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

The Center was created on June 24, 2006 in the Economic Stimulus Bill, Chapter 123, Section 24 of the Acts of 2006 and codified in the Massachusetts General Laws, Chapter 23I. The Center is a body politic and corporate. Exercise of the powers conferred by Chapter 23I is considered to be the performance of an essential governmental function. The purpose of the Center is to promote the life sciences within The Commonwealth of Massachusetts (the "Commonwealth"). It is tasked with investing in life sciences research and economic development initiatives. This work includes making financial investments in public and private institutions growing life sciences research, development and commercialization, as well as building ties between sectors of the Massachusetts life sciences community.

On June 16, 2008, the Life Sciences Act enacted by the Massachusetts Legislature was signed into law by Governor Deval Patrick. The Commonwealth of Massachusetts committed to investing \$1 billion over a ten year period to create jobs, drive innovation and promote biomedical breakthroughs that improve people's lives. The Center is the steward of the \$1 billion and uses three statutory funding vehicles to achieve the Commonwealth's mission: the Life Sciences Investment Fund (the "Investment Fund"), the Capital Program and the Life Sciences Tax Incentive Program.

The Life Sciences Investment Fund is to be used in making appropriations, allocations, grants or loans to leverage development and investments in life sciences in Massachusetts. The Capital Program is for municipalities and institutions for buildings, upgrades to roads, equipment, sewer lines and other infrastructure that supports growth in the life sciences sector. The Life Sciences Tax Incentive Program allows the Center to award tax incentives to companies at every stage of development.

The Center is governed by a seven member Board of Directors (the "Board of Directors") consisting of: the Secretary of Administration and Finance or her/his designee; the Secretary of Housing and Economic Development or his/her designee; the president of the University of Massachusetts or his/her designee; and four members appointed by the Governor, one of whom is a physician licensed to practice medicine in Massachusetts and affiliated with an academic medical center, one of whom is a CEO of a Massachusetts-based life sciences corporation that is a member of the board of directors of the Massachusetts Biotechnology Council, one of whom is a researcher involved in the commercialization of biotechnology, pharmaceuticals or medical diagnostic products and one of whom has significant financial experience in the life sciences sector.

Using the Financial Statements

The Center's annual report includes three basic financial statements: the balance sheet; the statement of revenues, expenses and changes in net assets; and the statement 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").

Financial Highlights

Fiscal year 2010 reflects a year of significant operating activities of the Center as grants were made both from the Investment Fund and Capital Programs and the initial awards under the Life Sciences Tax Incentive Program were made.

Massachusetts Life Sciences Center

Management's Discussion and Analysis (unaudited)

June 30, 2010 and 2009

Investment Fund

Section 24 of Chapter 123 of the Acts of 2006 established the Massachusetts Life Sciences Investment Fund to be administered by the Center to finance its activities. The Life Sciences Act of 2008 contemplates an annual appropriation from the legislature totaling \$250 million over 10 years. The Investment Fund is also to be used to support the administrative expenses and investment in property and equipment of the Center.

The legislature appropriated \$10 million in fiscal year 2010, \$15 million in fiscal year 2009 and \$15 million to the Investment Fund in fiscal year 2008.

In fiscal year 2010, the Board of Directors authorized \$4.4 million in commitments as compared to \$20.7 million in fiscal year 2009 and \$8.2 million in fiscal year 2008. The commitments were for research grants, workforce development programs, and programs that support innovation in life sciences. The decrease in commitments in fiscal year 2010 from fiscal year 2009 is due to reduced funding from the Commonwealth of Massachusetts. The increase in commitments in fiscal year 2009 from fiscal year 2008 is due to an increase in funding and staff resources to develop and administer programs. In fiscal year 2010, the Center incurred \$9.1 million of grant expense compared to \$10.8 million in fiscal year 2009 and \$75,000 in fiscal year 2008. The decrease in fiscal year 2010 is due to the lower level of disbursements for expenditures made on fiscal year 2010 programs. The increase in grant expense in fiscal year 2009 from fiscal year 2008 is due to new programs developed and awarded and fiscal year 2008 awards incurring expense in fiscal year 2009. Remaining payment commitments as of June 30, 2010 on the outstanding grants are approximately \$13.8 million.

In fiscal year 2010, the Board of Directors authorized \$5.5 million for early stage company loans under the Life Sciences Accelerator loan program for calendar year 2010. The loan program provides working capital to early stage companies at a critical stage of development. The Center awarded approximately \$2.5 million in fiscal year 2010 and \$3.4 million in fiscal year 2009. No loans were made in fiscal year 2008. The Investment Funds awarded in fiscal year 2010 have not been disbursed as of June 30, 2010. The Center is planning to award the remaining \$3.0 million under the \$5.5 million authorization in fiscal year 2011.

Capital Programs

The Capital Program was created by the Life Sciences Act and is for municipalities and institutions for buildings, upgrades to roads, sewer lines and other infrastructure that supports growth in the life sciences sectors. The Life Sciences Act provides for \$500 million to the program over 10 years. The Capital program is funded by the Commonwealth of Massachusetts. In fiscal year 2010, the Center entered into two new commitments for \$96.6 million and authorized an additional \$7.7 million for an existing grant. In fiscal year 2010, the Center incurred \$28.5 million of grant expense compared to approximately \$9.9 in fiscal year 2009. The Capital Program was not in existence in fiscal year 2008. The increase in grant expense in fiscal year 2010 from fiscal year 2009 was due to expenditures for awards made in fiscal year 2010 and fiscal year 2009 projects incurring expense in fiscal year 2010. The Life Sciences Act also provides for a small business matching grant fund under the Capital Program. Under the program companies that have received Phase II or later small business innovation research ("SBIR") grants can receive up to \$500,000 in grants from the Center to assist the awardee with commercializing their product. In fiscal year 2010, the initial year of the program, the Center made three awards totaling \$1,500,000 under the program.

Massachusetts Life Sciences Center

Management's Discussion and Analysis (unaudited)

June 30, 2010 and 2009

Life Sciences Tax Incentive Program

The Life Sciences Tax Incentive Program was created by the Life Sciences Act and allows the Center to award tax incentives to companies at every stage of development. The Center has the ability to award nine different tax incentives with a cumulative cap of \$25 million per year for 10 years. The tax incentives have no financial impact on the Center. The Center awarded \$24.4 million to 26 companies in fiscal year 2010 and did not make any awards in fiscal years 2009 or 2008.

Investment Income

Investment income in fiscal year 2010 was \$113,000 compared to \$516,000 in fiscal year 2009 and \$782,000 in fiscal year 2008. The decrease in fiscal year 2010 from 2009 is due to lower interest rates and deployment of funds. The decrease in fiscal year 2009 from fiscal year 2008 is due to lower interest rates and a lower average balance.

Administrative Expenses and Investments in Property and Equipment

In accordance with the Act, administrative expenses and purchases of property and equipment are provided by the Investment Fund. In fiscal year 2010, the Center incurred approximately \$2.3 million of administrative expenses and purchases of property and equipment compared to administrative expenses of \$2.5 million in fiscal year 2009 and \$347,000 in fiscal year 2008. In June 2009, The Commonwealth of Massachusetts, through its budget process, reduced the administrative expenditure cap from \$3.75 million to \$3 million for fiscal year 2010. The Center expended approximately \$0.7 million below the statutory amount in fiscal year 2010. The decrease in expenditures from fiscal year 2009 to fiscal year 2010 is due a reduction in professional fees offset by the first full year of fully-staffed operating and facility expenses. The increase in operating expenses from fiscal year 2008 to fiscal year 2009 is due to the ramp up of staffing and operations. Fiscal year 2010 was the first full year of various expenses including fully staffed salaries, benefits and facilities costs. In fiscal year 2010, the Center did not hire any employees and one employee left voluntarily resulting in a headcount of nine at June 30, 2010. In fiscal year 2009, the Center had ten employees and in fiscal year 2008 it had one employee.

Liquidity of the Investment Fund

From inception through June 30, 2010, the Investment Fund has received appropriations from the Commonwealth of Massachusetts of \$50 million. In addition, the Center has received investment income of approximately \$1.9 million in sponsorship and corporate consortium revenues of approximately \$0.6 million during the corresponding period for total inflows of approximately \$52.5 million. The Center reserves all the funds required for a grant or loan commitment at the time of the Board of Directors' authorization. From inception through June 30, 2010, the Center has disbursed or reserved approximately \$50.2 million resulting in approximately \$2.3 million of available funds as of June 30, 2010.

Massachusetts Life Sciences Center
Balance Sheets
June 30, 2010 and 2009

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 26,669,099	\$ 27,294,471
Accounts receivable	411,767	88,259
Capital program grants receivable from The Commonwealth of Massachusetts	9,667,583	1,590,391
Prepaid expenses and other current assets	20,561	13,579
Total current assets	<u>36,769,010</u>	<u>28,986,700</u>
Interest receivable, net	149,850	11,479
Loans receivable, net	1,450,000	3,400,000
Property and equipment, net	185,000	272,531
Total assets	<u>\$ 38,553,860</u>	<u>\$ 32,670,710</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 144,642	\$ 434,275
Grants payable and accrued grant expense	12,465,752	3,799,655
Deferred revenue	416,667	250,000
Total current liabilities	<u>13,027,061</u>	<u>4,483,930</u>
Deferred rent	74,651	26,152
Total liabilities	<u>13,101,712</u>	<u>4,510,082</u>
Net Assets		
Invested in capital assets	185,000	272,531
Unrestricted net assets	25,267,148	27,888,097
Total net assets	<u>25,452,148</u>	<u>28,160,628</u>
Total liabilities and net assets	<u>\$ 38,553,860</u>	<u>\$ 32,670,710</u>

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

Massachusetts Life Sciences Center
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues		
Capital program revenues from The Commonwealth of Massachusetts	\$ 30,000,000	\$ 9,928,796
Sponsorship and consortium revenues	499,550	90,619
Interest income	140,151	11,479
Total operating revenues	<u>30,639,701</u>	<u>10,030,894</u>
Operating expenses		
Grant expense	39,149,907	20,742,133
Salary and related employee expenses	1,419,959	1,052,121
Professional and consulting fees	244,345	742,798
Communications programs, sponsorships and contributions	308,408	304,995
General and administrative expenses	298,420	144,546
Loan loss reserve expenses	1,951,781	-
Depreciation expense	88,681	22,415
Total operating expenses	<u>43,461,501</u>	<u>23,009,008</u>
Operating loss	(12,821,800)	(12,978,114)
Nonoperating revenues		
Investment income	113,320	515,633
Total nonoperating revenues	<u>113,320</u>	<u>515,633</u>
Loss before capital contributions	(12,708,480)	(12,462,481)
Contributions from The Commonwealth of Massachusetts	<u>10,000,000</u>	<u>15,000,000</u>
(Decrease)/increase in net assets	(2,708,480)	2,537,519
Net assets		
Beginning of year	<u>28,160,628</u>	<u>25,623,109</u>
End of year	<u>\$ 25,452,148</u>	<u>\$ 28,160,628</u>

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

Massachusetts Life Sciences Center
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Receipts of capital program grants from The Commonwealth of Massachusetts	\$ 21,922,808	\$ 8,338,405
Payments for grants	(30,483,810)	(16,942,478)
Payments for salary and related employee expenses	(1,539,331)	(854,338)
Payments for professional and consulting fees	(275,496)	(757,941)
Payments for general and administrative expenses	(221,243)	(210,648)
Payments for communication programs, sponsorships and contributions	(402,660)	(124,674)
Receipts for sponsorships and consortium	342,709	252,360
Net cash used in operating activities	<u>(10,657,023)</u>	<u>(10,299,314)</u>
Cash flows from capital and related financing activities		
Receipt of contributions from The Commonwealth of Massachusetts	10,000,000	15,000,000
Net cash provided by capital and related financing activities	<u>10,000,000</u>	<u>15,000,000</u>
Cash flows from investing activities		
Purchase of property and equipment	(81,669)	(214,427)
Issuance of loans	-	(3,400,000)
Receipt of investment income	113,320	515,633
Net cash provided by (used in) investing activities	<u>31,651</u>	<u>(3,098,794)</u>
Net (decrease) increase in cash and cash equivalents	<u>(625,372)</u>	<u>1,601,892</u>
Cash and cash equivalents		
Beginning of year	27,294,471	25,692,579
End of year	<u>\$ 26,669,099</u>	<u>\$ 27,294,471</u>
Reconciliation of cash flows from operating activities		
Operating loss	\$ (12,821,800)	\$ (12,978,114)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	88,681	22,415
Loan loss reserve expense	1,950,000	-
Changes in assets and liabilities		
Accounts receivable	(323,508)	(88,259)
Capital program grants receivable from The Commonwealth of Massachusetts	(8,077,192)	(1,590,391)
Interest receivable	(138,371)	(11,479)
Prepaid expenses and other current assets	(6,982)	(12,591)
Accounts payable and accrued expenses	(209,114)	283,298
Grants payable and accrued grant expense	8,666,097	3,799,655
Deferred rent	48,499	26,152
Deferred revenue	166,667	250,000
Total adjustments	<u>2,164,777</u>	<u>2,678,800</u>
Net cash used in operating activities	<u>\$ (10,657,023)</u>	<u>\$ (10,299,314)</u>

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

Massachusetts Life Sciences Center

Notes to Financial Statements

June 30, 2010 and 2009

1. Organization

On June 24, 2006, The Commonwealth of Massachusetts (the "Commonwealth") enacted Section 24 of Chapter 123 of the Acts of 2006, creating the Massachusetts Life Sciences Center (the "Center") and establishing the Massachusetts Life Sciences Investment Fund (the "Investment Fund") to financially support its activities.

On June 16, 2008, the Life Sciences Act enacted by the Massachusetts Legislature was signed into law by Governor Deval Patrick. The Commonwealth of Massachusetts committed to investing \$1 billion over a ten year period to create jobs, drive innovation and promote biomedical breakthroughs that improve people's lives. The Center is the steward of the \$1 billion and uses three statutory funding vehicles to achieve the Commonwealth's mission: the Life Sciences Investment Fund (the "Investment Fund"), the Capital Program and the Life Sciences Tax Incentive Program.

The Life Sciences Investment Fund is to be used in making appropriations, allocations, grants or loans to leverage development and investments in life sciences in Massachusetts. The Capital Program is for municipalities and institutions for buildings, upgrades to roads, equipment, sewer lines and other infrastructure that supports growth in the life sciences sector. The Life Sciences Tax Incentive Program allows the Center to award tax incentives to companies at every stage of development.

All investments to be made by the Center require approval by its Board of Directors.

2. Significant Accounting Principles

Accounting and Reporting Standards

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board.

The Center applies all Governmental Accounting Standards Board (GASB) pronouncements and Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989 that do not conflict with GASB pronouncements, under the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

The GASB defines the basic financial statements of a business type activity as the: balance sheet, statement of revenues, expenses and changes in net assets, the statement of cash flows, and management's discussion and analysis as required supplemental information. The balance sheet 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 assets. Operating activities are those that support the mission and purpose of the Center. Nonoperating activities represent transactions that are capital, investing, legislative or regulated in nature. The GASB requires that resources be classified into three categories of net assets. Net assets represent the residual interest in the Center's assets after liabilities are deducted and consist of: invested in capital assets, net of related debt; restricted; and unrestricted. Those assets are defined as follows:

Massachusetts Life Sciences Center

Notes to Financial Statements

June 30, 2010 and 2009

Invested in Capital Assets

Invested in capital assets, net of related debt, includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted

Restricted assets are those net assets subject to externally imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time.

Unrestricted

Unrestricted assets are those net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may be otherwise limited by contractual agreements with outside parties. The Center's unrestricted net assets include appropriations received from the Commonwealth that are restricted for the general purposes of the Center. Per its enabling legislation, the Center may not expend more than fifteen percent of the amounts to be expended from the Life Sciences Investment Fund for the fiscal year for administrative expenditures.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on hand and highly liquid interest investments with maturities of three months or less at acquisition.

Revenue Recognition

Investment income is recognized as earned. Sponsorship revenues are related to obligations to provide tradeshow booths and other space for companies for a trade show. Sponsorship revenues are recognized when earned upon occurrence of the event. Consortium Revenues are fees paid by Corporations to sponsor and participate in the Center's small business matching grant and accelerator loan programs. Fees are for a specific time period. Revenues are recognized over the specified time period.

Interest Income on loans is recognized as earned. Interest Income is net of any interest income loss reserve.

Capital program revenues are amounts due to the Center by The Commonwealth of Massachusetts for related capital program expenditures by the Center for grantees of the Center. Capital program revenues are recognized in the period earned.

Contributions from the Commonwealth of Massachusetts

Contributions from the Commonwealth are recognized when received from the Commonwealth.

Massachusetts Life Sciences Center

Notes to Financial Statements

June 30, 2010 and 2009

Loans Receivable and Interest Receivable, Net

Loans receivable, net, consists of loans issued by the Center to facilitate research, development, manufacturing and commercialization in life sciences by early stage companies. The loans have repayment terms of the earlier of 5 years or a qualified financing greater than \$5,000,000. The stated interest rate on each loan is 10% compounded annually. In April 2010, the Center wrote off a loan receivable in the amount of \$500,000 as loan loss reserve expense.

As of June 30, 2010 \$5,875,000 has been authorized and \$3,400,000 has been disbursed. On a periodic basis, the Center assess the collectability of each loan and establishes a loss reserve. As of June 30, 2010, \$2,900,000 of loans receivable are outstanding and \$1,450,000 has been reserved for losses, resulting in net loans receivable of \$1,450,000.

As of June 30, 2010, the Center has recorded gross interest receivable of \$299,699. On a periodic basis, the Center assesses the collectability of the interest receivable and establishes a loss reserve. As of June 30, 2010, \$149,849 has been reserved resulting in net interest receivable of \$149,850. Interest is due at the end of the loan term or upon repayment of the loan due to a qualified financing of greater than \$5,000,000.

Grant Expense and Grants Payable

Grant expenses are related to grant awardees in the period incurred. The Center had grant expense of \$39,149,907 and \$20,742,133 for fiscal year 2010 and 2009, respectively. As of June 30, 2010 and 2009, \$12,465,752 and \$3,799,655, respectively, was recorded as grants payable, representing grant expense incurred but not yet paid.

Income Taxes

Pursuant to Massachusetts General Laws chapter 23I §6(a), the operations of the Center constitute the performance of an essential government function and are therefore exempt from taxation by and within the Commonwealth.

Defined Contribution Plan

All employees of the Center participate in either the Commonwealth of Massachusetts State Retirement systems or the statutorily prescribed optional defined contribution plan provided by the Center. The Center makes no contributions for employees participating in the Commonwealth of Massachusetts State Retirement systems' pension plan. In fiscal year 2010, as provided by the 2008 Statute, the Center established the optional defined contribution plan. The Company annually contributes an amount equal to 12% (5% statutorily mandated) of an employee's annual gross salary less the cost of life and disability insurance. Total optional defined contribution expense for the years ended June 30, 2010 and 2009 was \$100,850 and \$0, respectively. Vesting is immediate upon contribution. The Company pays administrative expenses of the Plan for the plan participants and ING is the custodian of the plan's assets.

Reclassifications

Certain amounts have been reclassified in the prior year's financial statements to conform to the classifications used in the current year.

Massachusetts Life Sciences Center
Notes to Financial Statements
June 30, 2010 and 2009

3. Related Party Transactions

Certain of the Center's Board members have relationships with institutions that have received grants. Absent any statutory exemptions to the conflict of interest law, in circumstances where approval of such votes would create a conflict of interest, MLSC Board members are required to recuse themselves.

During part of fiscal year 2009, certain administrative functions were provided within the Executive Office of Housing and Economic Development at no cost to the Center. Additionally, the Co-Chairman of the Center's Board of Directors is the Secretary of Housing and Economic Development.

4. Cash and Cash Equivalents

The following summarizes the cash and cash equivalents of the Center and identifies certain types of investment risk as defined by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, at June 30, 2010 and 2009.

June 30, 2010	Carrying Amount	Fair Value
Cash deposits	\$ 1,714,055	\$ 1,714,055
Massachusetts Municipal Depository Trust	24,955,044	24,955,044
Total at June 30, 2010	<u>\$ 26,669,099</u>	<u>\$ 26,669,099</u>
June 30, 2009	Carrying Amount	Fair Value
Cash deposits	\$ 7,836,750	\$ 7,836,750
Massachusetts Municipal Depository Trust	19,457,721	19,457,721
Total at June 30, 2009	<u>\$ 27,294,471</u>	<u>\$ 27,294,471</u>

Custodial Credit Risk—Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the deposits may not be recovered. The Center's cash and cash equivalents are held by financial institutions and the credit of those institutions has been reviewed by management.

Massachusetts Life Sciences Center
Notes to Financial Statements
June 30, 2010 and 2009

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Center manages its exposure to interest rate risk by structuring its investment portfolio so that investments mature to meet cash requirements for ongoing operations and investing operating funds primarily in cash equivalents.

	2010	2009
Depository accounts		
Insured	\$ -	\$ -
Uninsured and uncollateralized	26,699,099	27,294,471
Total cash deposits	<u>\$ 26,699,099</u>	<u>\$ 27,294,471</u>

As of June 30, 2010 and 2009, the Massachusetts Municipal Depository Trust investment maturities are summarized as follows:

2010 Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Certificates of deposit	\$ 9,828,198	\$ 9,828,198	\$ -	\$ -	\$ -
Commercial paper	5,192,568	5,192,568	-	-	-
U.S. Government and government agency obligations	607,578	607,578	-	-	-
Federal agencies	799,559	799,559	-	-	-
U.S. Treasury obligations	858,078	858,078	-	-	-
Medium-term notes	1,818,695	1,818,695	-	-	-
Municipal securities	77,554	77,554	-	-	-
Repurchase agreements	6,041,524	6,041,524	-	-	-
Other assets (liabilities), net	(268,710)	(268,710)	-	-	-
	<u>\$ 24,955,044</u>	<u>\$ 24,955,044</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2009 Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ 175,959	\$ 175,959	\$ -	\$ -	\$ -
Certificates of deposit	8,282,131	8,282,131	-	-	-
Commercial paper	3,166,405	3,166,405	-	-	-
U.S. Government and government agency obligations	421,889	421,889	-	-	-
Federal agencies	3,097,624	3,097,624	-	-	-
U.S. Treasury obligations	818,544	818,544	-	-	-
Bank notes	60,260	60,260	-	-	-
Medium-term notes	2,077,759	2,077,759	-	-	-
Repurchase agreements	1,576,128	1,576,128	-	-	-
Other assets (liabilities), net	(218,978)	(218,978)	-	-	-
	<u>\$ 19,457,721</u>	<u>\$ 19,457,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Massachusetts Life Sciences Center
Notes to Financial Statements
June 30, 2010 and 2009

5. Property and Equipment, Net

Property, Equipment, and Leasehold Improvements are all stated at cost. Depreciation is recorded over the estimated useful lives of the assets by the straight line method. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense totaled \$88,681 and \$22,415 for the years ended June 30, 2010 and 2009, respectively. Estimated useful lives used for computing depreciation on property, equipment and leasehold improvements are as follows:

Computer equipment and software	3 years
Office equipment	3 years
Office furniture	3 years
Leasehold improvements	shorter of the remaining term of lease or asset life

Property and equipment, net, at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Computer equipment	\$ 92,537	\$ 92,537
Office furniture	130,100	128,950
Leasehold improvements	73,459	73,459
	<u>296,096</u>	<u>294,946</u>
Accumulated depreciation	(111,096)	(22,415)
Property and equipment, net	<u>\$ 185,000</u>	<u>\$ 272,531</u>

6. Accounts Payable and Accrued Expenses

As of June 30, 2010 and 2009, accounts payable and accrued expenses totaled \$144,642 and \$434,275, respectively. Those expenses primarily accounted for accrued salary, professional and consulting fees and reimbursements owed to the Massachusetts Technology Collaborative.

7. Grants and Commitments

Investment Fund

The following grants were made out of the Massachusetts Life Sciences Investment Fund (the "Investment Fund"):

In June 2007, the Board of Directors voted to approve a Grant of \$200,000 to the University of Massachusetts Donahue Institute to study the workforce, training and education needs of the life sciences industry in Massachusetts. For the fiscal years ended June 30, 2008 and 2009, the Center expensed \$75,000 and \$125,000, respectively. There are no remaining payments under the grant.

Massachusetts Life Sciences Center

Notes to Financial Statements

June 30, 2010 and 2009

In October 2007, the Board of Directors voted to approve two grants for the University of Massachusetts Medical School: 1) \$570,000 for funding for a stem cell registry; and 2) \$7,665,000 for a stem cell bank. In June of 2009, the Board of Directors voted to approve an additional \$695,000 for the stem cell registry. For the year ended June 30, 2010, the Center expensed \$1,557,058 of which \$363,104 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grants are \$1,731,868 as of June 30, 2010.

In July 2008, the Board of Directors voted to approve \$6,918,378 in funding for two research matching grant programs to attract top scientific talent, spur new research opportunities and increase industry-sponsored research. Specifically, the Board of Directors awarded five new faculty grants totaling \$3,750,000 to various Massachusetts universities. The Board of Directors also awarded eleven new investigator grants totaling \$3,168,378 to a variety of research centers. For the year ended June 30, 2010, the Center expensed \$1,462,414 of which \$1,004,000 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grants are \$5,805,988 as of June 30, 2010.

In December 2008, the Board of Directors voted to approve \$3,786,867 for six cooperative research grants over a three-year period to foster collaborations between scientists, academic institutions and industry. For the year ended June 30, 2010, the Center expensed \$912,660 of which \$610,456 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grants are \$3,344,424 as of June 30, 2010.

In January 2009, the Board of Directors voted to approve \$7,400,000 for Organogenesis, Inc of Canton, Massachusetts to assist the company in the construction of its regenerative medicine research and development and manufacturing plant in Canton, Massachusetts. The grant was authorized in two installments in fiscal year 2009 and fiscal year 2010. For the year ended June 30, 2010, the Center expensed \$3,700,000 of which all was paid as of June 30, 2010. For the year ended June 30, 2009, the Center expensed \$3,700,000 of which all was paid as of June 30, 2009.

In the winter and spring of 2010, the Board of Directors authorized up to \$1,160,000 for expenditures for the 2010 Internship Challenge program. For the year ended June 30, 2010, the Center expensed \$435,525 of which \$435,525 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized program are \$1,160,000. In February 2009, the Board of Directors authorized up to \$500,000 of expenditures for an Internship Challenge Program. For the 2009 program \$262,244 was expensed in fiscal year 2010. Total expense for the 2009 program was \$452,190. There were no remaining payments for the 2009 program as of June 30, 2010.

In June 2009, the Board of Directors voted to approve \$1,380,256 for seven New Investigator grants to various research centers. For the year ended June 30, 2010, the Center expensed \$511,031 of which \$275,420 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized program are \$1,144,645.

In July 2009, the Board of Directors voted to approve \$600,000 for three New Investigator matching grants. For the year ended June 30, 2010, the Center expensed \$167,975 of which \$102,155 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized program are \$534,180.

Massachusetts Life Sciences Center

Notes to Financial Statements

June 30, 2010 and 2009

Other Grants

The Center also made grants to various business plan competitions to foster company development within the Commonwealth. For the year ended June 30, 2010, the Center expensed \$120,000 of which \$10,000 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grant are \$10,000 as of June 30, 2010. The Center also made a \$50,000 grant to the Massachusetts Life Sciences Collaborative to launch and develop a formal Massachusetts Biomanufacturing Roundtable to support and promote the retention and growth of biomanufacturing in Massachusetts. For the year ended June 30, 2010, the Center expensed \$20,999 of which all was unpaid and is included in grants payable and accrued grant expense as June 30, 2010. Remaining payments under the authorized grant are \$50,000 as June 30, 2010.

Total remaining payments for all Investment Fund grants as of June 30, 2010 are \$13,781,105.

Capital Program Grants

The following grants were made under the Capital program:

In October 2008, the Board of Directors voted to approve \$5,200,000 for the replacement of a wastewater pump station in Framingham that will help support the expansion of Genzyme Corporation's manufacturing facility in Framingham, Massachusetts. This grant is the first installment of approximately \$12,900,000 that has been allocated to the Framingham project in connection with the Life Sciences Statute. In October 2009, the Board of Directors voted to approve the second installment of \$7,700,000 for the \$12,900,000 grant. For the year ended June 30, 2010, the Center expensed \$5,378,014 of which \$2,384,492 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grant are \$9,635,754 as of June 30, 2010.

In November 2008, the Board of Directors voted to approve \$10,000,000 for the renovation of laboratory space at the Marine Biological Laboratory ("MBL") in Woods Hole, Massachusetts. The grant augments a \$15,000,000 grant to MBL from the Howard Hughes Medical Institute. MBL is an international, nonprofit institution dedicated to discovery and to improving the human condition through creative research and education in the biological, biomedical and environmental sciences. For the year ended June 30, 2010, the Center expensed \$7,336,629 of which all was paid as of June 30, 2010. There are no remaining payments under the authorized grant.

In March 2009, the Board of Directors voted to approve \$9,500,000 for the construction and capital improvements of the Tufts University Cummings School of Veterinary Medicine New England Regional Biosafety Laboratory to improve the public health, protect public safety, improve science education and stimulate economic development. For the year ended June 30, 2010, the Center expensed \$2,505,300 of which \$2,505,300 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grant are \$2,505,300.

In September 2009, the Board of Directors voted to approve \$90,000,000 for the design, construction, development and related infrastructure improvements for an advanced therapeutics cluster to be constructed at the University of Massachusetts Medical School in Worcester. The payments are to be paid over four fiscal years beginning in fiscal year 2010 and concluding in fiscal year 2013. For the year ended June 30, 2010, the Center expensed \$13,280,057 of which \$3,254,300 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grant are \$79,974,243 as of June 30, 2010.

Massachusetts Life Sciences Center
Notes to Financial Statements
June 30, 2010 and 2009

In February 2010, the Board of Directors voted to approve \$6,600,000 towards the next phase of development of Gateway Park in Worcester. The grant supports the development of WPI's Biomanufacturing Education and Training Center (BETC); a new incubator for Massachusetts Biomedical Initiatives (MBI); and expanded academic and search space, including new facilities for the Massachusetts Academy of Math and Science. For the year ended June 30, 2010 the Center did not incur any expense or make any payments under the grant. Remaining payments under the grant are \$6,600,000 as of June 30, 2010.

In May 2010, the Center's Board of Directors awarded \$1,500,000 in Small Business Matching Grants to three life science companies in Massachusetts. To qualify for the program companies must have received Phase II or Post Phase II small business innovation research (SBIR) or small business technology transfer (STTR) grants from Federal agencies such as the National Institutes of Health (NIH), National Science Foundation (NSF), or Department of Defense (DOD). For the year ended June 30, 2010 the Center expensed \$1,500,000 of which all was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the grant are \$1,500,000 as of June 30, 2010.

Total remaining payments for all capital program grants as of June 30, 2010 are \$100,215,297.

Facility Lease

In December 2008, the Center entered into a 5 year noncancellable operating lease through March 2014 for its facilities in Waltham, Massachusetts. The lease agreement provides for certain months of nonpayment of rent ("free rent") and includes escalating rent payments. Rent expense is recorded on the straight line basis, and therefore, as of June 30, 2010 and 2009, deferred rent in the amount of \$74,651 and \$26,152, respectively, has been recorded. Rent expense under the operating lease was \$159,256 for the year ended June 30, 2010.

Future minimum lease payments under all operating lease agreements are approximately:

	Amount
2011	\$ 171,000
2012	177,000
2013	183,000
2014	141,000
2015	-
Thereafter	-
	<u>\$ 672,000</u>

8. Subsequent Events

In August 2010, the Center disbursed \$187,500 to one of the June 2010 Accelerator loan program awardees.

In September 2010, one of the 2009 Accelerator loans was repaid in full. The Center received the full principal of \$500,000 and interest of \$62,657.