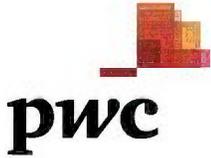


Massachusetts Life Sciences Center

**Financial Statements with Management's
Discussion and Analysis
June 30, 2012 and 2011**

Massachusetts Life Sciences Center
Index
June 30, 2012 and 2011

	Page(s)
Report of Independent Auditors	1
Management's Discussion and Analysis	2-5
Financial Statements	
Balance Sheets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9-19



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 of cash flows of the Massachusetts Life Sciences Center (the "Center") (a component unit of the Commonwealth of Massachusetts), present fairly, in all material respects, the financial position of the Center at June 30, 2012 and June 30, 2011, and the related changes in financial position and cash flows for the years then ended, in conformity with accounting principles 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 accompanying management's discussion and analysis on pages 2 through 5 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the 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 audits 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.

PricewaterhouseCoopers LLP

September 26, 2012

Massachusetts Life Sciences Center Management's Discussion and Analysis (unaudited) June 30, 2012 and 2011

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, 2012, 2011 and 2010. 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 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").

Massachusetts Life Sciences Center

Management's Discussion and Analysis (unaudited)

June 30, 2012 and 2011

Financial Highlights

The balance sheet is presented to illustrate both the current and non-current balances of each asset and liability. All revenues and expenses are classified as either operating or non-operating 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. Non-operating 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.

Total assets of the Center fluctuate year to year mainly based on timing of receipts of reimbursements due to the Center for Investment Fund and Capital Program expenses incurred by grantees in addition to contributions received from the Commonwealth of Massachusetts. Total liabilities fluctuate year to year mainly due to the timing of related payments for the Investment Fund and Capital Program passed through the Center payable to the grantees. Net assets of the Center are all unrestricted, aside from those invested in capital assets. Ending net assets as of June 30, 2012, 2011 and 2010 is \$27,201,578, \$26,271,099 and \$25,452,148, respectively. Changes in net assets year over year is driven by the changes in revenues and expenses by the Center. The significant components of change in revenues and expenses year over year are discussed in the remainder of the management discussion and analysis of this document.

Fiscal year 2012 is the fourth year of the initiative and reflects a year of significant operating activities of the Center as grants were made both from the Investment Fund and Capital Programs and a third round of awards under the Life Sciences Tax Incentive Program were made.

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 2012, \$10 million in fiscal year 2011 and \$10 million in fiscal year 2010.

In fiscal year 2012, the Board of Directors authorized \$5.1 million in commitments as compared to \$4.5 million in fiscal year 2011 and \$4.4 million in fiscal year 2010. The commitments were for research grants, workforce development programs, and programs that support innovation in life sciences. The increase in fiscal year 2012 from fiscal year 2011 is due to an expansion of existing programs and a new international innovation program. The slight increase in commitments in fiscal year 2011 from fiscal year 2010 was due to an expansion of existing programs. In fiscal year 2012, the Center incurred \$6.8 million of grant expense compared to \$6.6 million in fiscal year 2011 and \$9.1 million in fiscal year 2010. The slight increase in expense in fiscal year 2012 from fiscal year 2011 is due to the timing of programs. The decrease in fiscal year 2011 from fiscal year 2010 is due to fewer grants in 2011 and grants obligations that were fulfilled in fiscal year 2010. Remaining payment commitments as of June 30, 2012 on the outstanding grants are approximately \$9.2 million.

Massachusetts Life Sciences Center Management's Discussion and Analysis (unaudited) June 30, 2012 and 2011

In fiscal year 2012, the Board of Directors authorized \$6 million for early stage company loans under the Life Sciences Accelerator Loan program for fiscal year 2013. The loan program provides working capital to early stage companies at a critical stage of development. From prior year authorizations, the Center awarded \$3.1 million in fiscal year 2012 and \$3.75 million in fiscal year 2011. Of the \$3.1 million in investment funds awarded in fiscal year 2012, none have been disbursed as of June 30, 2012.

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 Capital Program over 10 years. The Capital Program is funded by the Commonwealth of Massachusetts. In fiscal year 2012, the Center entered into six new commitments for \$56 million. In fiscal year 2012, the Center incurred \$42.5 million of grant expense compared to approximately \$29.1 million in fiscal year 2011 and \$28.5 million in fiscal year 2010. The increase in fiscal year 2012 from fiscal year 2011 is due to prior commitments incurring greater expense in fiscal year 2012. The increase in fiscal year 2011 from fiscal year 2010 is due to prior commitments incurring greater expense in fiscal year 2011. The Life Sciences Act also provides for a Life Sciences Education fund for providing grants for purchasing or leasing equipment to train students in life sciences and research. In fiscal year 2011, the Center made 32 grants for a new program to vocational/technical high schools, community colleges and other workforce development programs totaling nearly \$3.4 million and incurring expense of \$2.9 million. In fiscal year 2012, no new awards were made and the Center incurred \$483,000 of grant expense under the program from prior year awards.

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, three companies received awards and the Center incurred \$1,500,000 of expense in fiscal year 2010. In fiscal year 2011, four companies received awards and the Center incurred \$2,000,000 of expense in fiscal year 2011. In fiscal year 2012, the Center made one award totaling \$500,000 under the program.

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 ten 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 \$20.3 million to 26 companies in fiscal year 2012, \$20.9 million to 24 companies in fiscal year 2011, and \$24.4 million to 26 companies in fiscal year 2010.

Investment Income

Investment income in fiscal year 2012 was \$73,000 compared to \$86,000 in fiscal year 2011 and \$113,000 in fiscal year 2010. Investment income relates to interest earned throughout the fiscal year on the Center's cash and cash equivalent balance. The decrease in fiscal year 2012 from fiscal year 2011 is due to a lower average balance. The decrease in fiscal year 2011 from fiscal year 2010 is due to a lower average balance.

Massachusetts Life Sciences Center Management's Discussion and Analysis (unaudited) June 30, 2012 and 2011

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 2012, the Center incurred approximately \$2.2 million of administrative expenses and purchases of property and equipment. In fiscal year 2011 and 2010 the Center incurred approximately \$2.2 million and \$2.3 million, respectively, of administrative expenses. The same level of expenditures in fiscal year 2012 from fiscal year 2011 is due to higher staffing costs as a result of a full year of costs for open positions filled during fiscal year 2011 and lower fiscal year 2012 communications programs, professional fees and administrative expenses. The decrease in expenditures in fiscal year 2011 from fiscal year 2010 is due to lower staffing costs as a result of open positions and lower communications programs. For the fiscal years ended June 30, 2012, June 30, 2011 and June 30, 2010, the headcount of the Center was ten, nine, and nine, respectively.

Liquidity of the Investment Fund

From inception through June 30, 2012, the Investment Fund has received appropriations from the Commonwealth of \$70 million. In addition, the Center has received investment income of approximately \$2.1 million and in loan repayments, sponsorship and corporate consortium revenues of approximately \$3.8 million during the corresponding period for total inflows of approximately \$75.9 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, 2012, the Center has disbursed or reserved approximately \$72.2 million resulting in approximately \$3.7 million of available funds as of June 30, 2012.

Massachusetts Life Sciences Center
Balance Sheets
June 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 27,513,436	\$ 27,279,085
Accounts receivable	-	64,900
Grant reimbursement from the Commonwealth	17,464,289	19,715,000
Interest receivable, net	351,674	198,126
Prepaid expenses and other current assets	49,646	38,517
Total current assets	<u>45,379,045</u>	<u>47,295,628</u>
Loans receivable, net	2,503,500	2,012,500
Property and equipment, net	31,683	100,018
Total noncurrent assets	<u>2,535,183</u>	<u>2,112,518</u>
Total assets	<u>\$ 47,914,228</u>	<u>\$ 49,408,146</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 201,371	\$ 231,438
Grants payable and accrued grant expense	20,466,488	22,717,961
Other current liabilities	-	125,000
Total current liabilities	<u>20,667,859</u>	<u>23,074,399</u>
Deferred rent	44,791	62,648
Total liabilities	<u>20,712,650</u>	<u>23,137,047</u>
Net Assets		
Invested in capital assets	31,683	100,018
Unrestricted net assets	27,169,895	26,171,081
Total net assets	<u>27,201,578</u>	<u>26,271,099</u>
Total liabilities and net assets	<u>\$ 47,914,228</u>	<u>\$ 49,408,146</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, 2012 and 2011

	2012	2011
Operating income		
Capital program revenues from the Commonwealth	\$ 43,500,000	\$ 34,000,000
Sponsorship/corporate consortium revenues	131,300	607,567
Interest income	392,911	178,864
Total operating income	<u>44,024,211</u>	<u>34,786,431</u>
Operating expenses		
Grant expense	50,265,235	40,564,217
Salary and related employee expenses	1,438,984	1,277,158
Professional and consulting fees	180,152	202,576
Communications programs, sponsorships and contributions	224,874	326,516
General and administrative expenses	368,248	383,184
Loan loss reserve expense, net	616,000	1,212,500
Depreciation	73,386	87,659
Total operating expenses	<u>53,166,879</u>	<u>44,053,810</u>
Operating loss	(9,142,668)	(9,267,379)
Nonoperating revenues		
Investment income	<u>73,147</u>	<u>86,330</u>
Total nonoperating revenues	<u>73,147</u>	<u>86,330</u>
Loss before capital contributions	(9,069,521)	(9,181,049)
Contributions from the Commonwealth	<u>10,000,000</u>	<u>10,000,000</u>
Increase in net assets	930,479	818,951
Net assets		
Beginning of year	<u>26,271,099</u>	<u>25,452,148</u>
End of year	<u>\$ 27,201,578</u>	<u>\$ 26,271,099</u>

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

Massachusetts Life Sciences Center
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Receipts for reimbursements from the Commonwealth	\$ 45,750,711	\$ 23,952,583
Payments for grants	(52,516,708)	(30,312,008)
Payments for salary and related employee expenses	(1,424,832)	(1,268,000)
Payments for professional consulting fees	(161,574)	(173,363)
Payments for general and administrative expenses	(389,814)	(437,340)
Payments for communication programs, sponsorships and contributions	(295,091)	(253,894)
Receipts for interest income	239,363	130,587
Receipts for sponsorships	71,200	662,767
Net cash used in operating activities	<u>(8,726,745)</u>	<u>(7,698,668)</u>
Cash flows from capital financing activities		
Receipt of contributions from the Commonwealth	<u>10,000,000</u>	<u>10,000,000</u>
Net cash provided by capital financing activities	<u>10,000,000</u>	<u>10,000,000</u>
Cash flows from investing activities		
Purchase of property and equipment	(5,051)	(2,676)
Issuance of loans	(2,207,000)	(2,775,000)
Repayment of loans	1,100,000	1,000,000
Receipt of investment income	<u>73,147</u>	<u>86,330</u>
Net cash used in investing activities	<u>(1,038,904)</u>	<u>(1,691,346)</u>
Net increase in cash and cash equivalents	<u>234,351</u>	<u>609,986</u>
Cash and cash equivalents		
Beginning of year	<u>27,279,085</u>	<u>26,669,099</u>
End of year	<u>\$ 27,513,436</u>	<u>\$ 27,279,085</u>
Reconciliation of cash flows from operating activities		
Operating loss	\$ (9,142,668)	\$ (9,267,379)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	73,386	87,659
Loan loss reserve	616,000	1,212,500
Loan interest reserve	215,599	186,484
Changes in assets and liabilities		
Accounts receivable	64,900	346,867
Grant reimbursement from the Commonwealth	2,250,711	(10,047,417)
Interest receivable	(369,147)	(234,761)
Prepaid expenses and other current assets	(11,129)	(17,956)
Accounts payable and accrued expenses	(30,067)	86,796
Grants payable and accrued grant expense	(2,251,473)	10,252,209
Deferred rent	(17,857)	(12,003)
Other current liabilities	<u>(125,000)</u>	<u>(291,667)</u>
Total adjustments	<u>415,923</u>	<u>1,568,711</u>
Net cash used in operating activities	<u>\$ (8,726,745)</u>	<u>\$ (7,698,668)</u>

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

Massachusetts Life Sciences Center

Notes to Financial Statements

June 30, 2012 and 2011

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 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.

The Center is a component unit of the Commonwealth of Massachusetts.

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, 2012 and 2011

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 and property and equipment.

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 the Center providing 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 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, 2012 and 2011

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.

As of June 30, 2012, \$11,207,000 of loans receivable has been authorized and \$8,382,000 has been disbursed. During fiscal year 2012, two borrowers repaid back their loans in full with a combined repayment of principal of \$1,100,000. On a periodic basis, the Center assesses the collectability of each loan and establishes a loss reserve. As of June 30, 2012, \$5,782,000 of loans receivable are outstanding and \$3,278,500 has been reserved for losses, resulting in net loans receivable of \$2,503,500. The Center has no write-offs or recoveries in fiscal years 2012 and 2011.

As of June 30, 2012, the gross interest receivable balance was \$903,607. On a periodic basis, the Center assesses the collectability of the interest receivable and establishes a loss reserve. As of June 30, 2012, \$551,933 has been reserved resulting in net interest receivable of \$351,674. Interest is due at the end of the loan term or upon repayment of the loan due to a qualified financing of these companies 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 \$50,265,235 and \$40,564,217 for fiscal year 2012 and 2011, respectively. As of June 30, 2012 and 2011, \$20,466,488 and \$22,717,961, 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 Center 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 by the Center for the years ended June 30, 2012 and 2011 was \$94,715 and \$80,536, respectively. Vesting is immediate upon contribution. The Center pays administrative expenses of the Plan for the plan participants and ING is the custodian of the plan's assets. The balances of the plan are not included in the financial statements of the Center.

Massachusetts Life Sciences Center
Notes to Financial Statements
June 30, 2012 and 2011

Massachusetts Neuroscience Consortium

In June 2012, the Center announced the formation of a separate initiative, the Massachusetts Neuroscience Consortium (the "Consortium"), a collaboration between seven global pharmaceutical companies. The Consortium will fund pre-clinical neuroscience at Massachusetts academic and research institutions. Each Consortium member has agreed to contribute \$250,000 to the Consortium for the first year membership contribution. The Center is not a member of the Consortium and makes no financial contribution to the Consortium. The financial burden and administrative control does not reside with the Center. The designated members of the Consortium are responsible for all decisions regarding disbursement of funds. The Center acts solely as a custodian of the Consortium funds which are segregated in a separate bank account, the Center does not receive any fees for custodial services provided. No amounts due to the Consortium were received by the Consortium as of June 30, 2012. Subsequent to year end, the Consortium has received \$1,500,000 from membership contributions to date held within the segregated bank account of the Center. The balances of the Consortium are not included in the financial statements of the Center as of June 30, 2012. If the Consortium was to terminate, all remaining funds would be due back to the contributing members on a pro-rata basis.

3. Related Party Transactions

Certain of the Center's Board of Director's 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, the Center's Board members are required to rescue themselves.

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, 2012 and 2011.

June 30, 2012	Carrying Amount	Fair Value
Cash deposits	\$ 2,913,399	\$ 2,913,399
Massachusetts Municipal Depository Trust (MMDT) Cash Portfolio	<u>24,600,037</u>	<u>24,600,037</u>
Total at June 30, 2012	<u>\$ 27,513,436</u>	<u>\$ 27,513,436</u>
June 30, 2011	Carrying Amount	Fair Value
Cash deposits	\$ 3,748,111	\$ 3,748,111
Massachusetts Municipal Depository Trust (MMDT) Cash Portfolio	<u>23,530,974</u>	<u>23,530,974</u>
Total at June 30, 2011	<u>\$ 27,279,085</u>	<u>\$ 27,279,085</u>

Massachusetts Life Sciences Center
Notes to Financial Statements
June 30, 2012 and 2011

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 exceed generally insured limits. All deposits are uninsured and uncollateralized.

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 so that investments mature to meet cash requirements for ongoing operations and investing operating funds primarily in cash equivalents.

As of June 30, 2012 and 2011, the Massachusetts Municipal Depository Trust investment maturities are summarized as follows:

2012 Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 8,589,201	\$ 8,589,201	\$ -	\$ -	\$ -
Commercial paper	6,191,431	6,191,431			
U.S. Government and government agency obligations	1,327,076	1,327,076			
U.S. Treasury obligations	2,869,529	2,869,529			
Medium-term notes	783,606	783,606			
Repurchase agreements	4,827,653	4,827,653			
Total investment	24,588,496	24,588,496	-	-	-
Net other assets/liabilities	11,541	11,541			
Net assets	\$ 24,600,037	\$ 24,600,037	\$ -	\$ -	\$ -

2011 Investment Type	Investment Maturities (in Years)				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 11,529,131	\$ 11,529,131	\$ -	\$ -	\$ -
Commercial paper	3,676,039	3,676,039			
U.S. Government and government agency obligations	68,100	68,100			
Federal agencies					
U.S. Treasury obligations	1,439,120	1,439,120			
Assets-backed securities	125,464	125,464			
Medium-term notes	1,195,979	1,195,979			
Municipal securities	162,217	162,217			
Repurchase agreements	5,323,346	5,323,346			
Total investment	23,519,396	23,519,396	-	-	-
Net other assets/liabilities	11,578	11,578			
Net assets	\$ 23,530,974	\$ 23,530,974	\$ -	\$ -	\$ -

Massachusetts Life Sciences Center
Notes to Financial Statements
June 30, 2012 and 2011

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 \$73,386 and \$87,659 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011 consisted of the following:

	2012	2011
Computer equipment	\$ 96,803	\$ 92,537
Office furniture	133,561	132,776
Leasehold improvements	73,459	73,459
	<u>303,823</u>	<u>298,772</u>
Accumulated depreciation	<u>(272,140)</u>	<u>(198,754)</u>
Property and equipment, net	<u>\$ 31,683</u>	<u>\$ 100,018</u>

6. Accounts Payable and Accrued Expenses

As of June 30, 2012 and 2011, accounts payable and accrued expenses totaled \$201,371 and \$231,438, respectively. Those expenses primarily accounted for accrued salary, professional and consulting fees and reimbursements owed for services provided by 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 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 2009, the Board of Directors voted to approve an additional \$695,000 for the stem cell registry. In September 2010, the Board of Directors voted to approve an additional \$440,000 for the stem cell registry. In January and May 2012, the Board of Directors voted to approve an additional \$950,000 for the stem cell bank. For the year ended June 30, 2012, the Center expensed \$994,149, of which \$519,011 was not paid as of June 30, 2012 and is included in

Massachusetts Life Sciences Center

Notes to Financial Statements

June 30, 2012 and 2011

grants payable and accrued grant expense on the balance sheet. For the year ended June 30, 2011, the Center expensed \$1,117,081. Remaining payments under the authorized grants are \$1,166,544 as of June 30, 2012.

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, 2012, the Center expensed \$1,558,045 of which \$449,216 was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. For the year ended June 30, 2011, the Center expensed \$2,207,626. Remaining payments under the authorized grants are \$1,485,533 as of June 30, 2012.

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. In fiscal year 2012, one of the awards was mutually terminated due to a change in focus by the industry sponsor. The amount remaining on the terminated grant was \$658,779. For the year ended June 30, 2012, the Center expensed \$1,061,638 of which \$650,811 was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. For the year ended June 30, 2011, the Center expensed \$832,739. Remaining payments under the authorized grants are \$831,623 as of June 30, 2012.

In April 2011, the Board of Directors voted to approve \$1,000,000 for two cooperative research grants. For the year ended June 30, 2012, the Center expensed \$127,897 of which all was not paid as of June 30, 2012. For the year ended June 30, 2011, the Center did not incur any expense or make any payments under the grants. Remaining payments under the grants are \$1,000,000 as of June 30, 2012.

In December 2011 and June 2012, the Board of Directors authorized \$3,200,000 for the 2012 Internship Challenge Program which is a year round program. For the year ended June 30, 2012, the Center expensed \$949,876 of which all was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized program are \$3,200,000. In the winter and spring of 2011, the Board of Directors authorized up to \$2,200,000 for the expenditures for the 2011 Internship Challenge Program. For the 2011 program \$1,327,048 was expensed of which \$107,448 was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. For the year ended June 30, 2011, the Center expensed \$535,665. Remaining payments under the authorized program are \$444,735. For the 2010 Internship program, \$615,400 was expensed and paid in fiscal year 2011 with no remaining payments as of June 30, 2012.

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, 2012, the Center expensed \$210,597 of which \$122,681 was not paid as of June 30, 2012 and is included in grants payable and accrued grant expenses on the balance sheet. For the year ended June 30, 2011, the Center expensed \$603,783. Remaining payments under the authorized program are \$177,524 as of June 30, 2012.

Massachusetts Life Sciences Center

Notes to Financial Statements

June 30, 2012 and 2011

In July 2009, the Board of Directors voted to approve \$600,000 for three new investigator matching grants. For the year ended June 30, 2012, the Center expensed \$144,606 of which \$36,657 was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. For the year ended June 30, 2011, the Center expensed \$278,591. Remaining payments under the authorized program are \$45,485 as of June 30, 2012.

Other Grants

The Center has also made \$1,325,000 of grants to various business plan competitions, international collaborations and workforce development and educational programs to foster company development foster collaboration between Massachusetts and international organizations and expand life sciences education and workforce within the Commonwealth. For the year ended June 30, 2012, the Center expensed \$354,586 of which \$40,104 was not paid as of June 30, 2012 and is included in grant payable and accrued grant expense on the balance sheet. For the year ended June 30, 2011, the Center expensed \$139,371. Remaining payments under the authorized grants are \$751,148 as of June 30, 2012.

In fiscal 2012, the Center made an additional \$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. The total amount of awards provided to the Massachusetts Biomanufacturing Roundtable is \$100,000. For the year ended June 30, 2012, the Center expensed \$36,792 of which \$36,792 was not paid as of June 30, 2012 and is included in grant payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grant are \$55,042 as of June 30, 2012.

Pursuant to the Massachusetts fiscal year 2011 state budget, the Center made a \$210,000 grant to the Massachusetts Biomedical Initiative which shall be expended for the operation and maintenance of the Massachusetts Biomedical Initiatives for the purpose of promoting the commercialization of new, academic-based research and development and raising the scientific awareness of the communities of the Commonwealth. The award amount was expensed and paid in the year ended June 30, 2011. There are no remaining payments as of June 30, 2012 under the authorized grant.

Total remaining payments for all Investment Fund grants as of June 30, 2012 are \$9,157,634.

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 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. In May 2011, the Board of Directors voted to approve an additional \$1,400,000 for the town of Framingham. For the year ended June 30, 2012, the Center expensed \$4,328,321 of which \$1,255,322 was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. For the year ended June 30, 2011, the Center expensed \$2,883,475. Remaining payments under the authorized grant are \$2,694,788 as of June 30, 2012.

Massachusetts Life Sciences Center

Notes to Financial Statements

June 30, 2012 and 2011

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, 2012, the Center expensed \$34,196,102 of which \$12,434,062 was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. For the year ended June 30, 2011, the Center expensed \$25,888,094. Remaining payments under the authorized grant are \$29,069,809 as of June 30, 2012.

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 was subsequently reduced to \$5,150,000 due to a reconfiguration of the project. The grant supports the development of WPI's Biomanufacturing Education and Training Center (BETC) and a new incubator for Massachusetts Biomedical Initiatives (MBI). For the year ended June 30, 2012, the Center expensed \$2,447,395 of which \$1,691,208 was not paid as of June 30, 2012 and is included in grants payable and accrued grants expense on the balance sheet. For the year ended June 30, 2011, the Center expensed \$377,536. Remaining payments under the grant are \$4,016,278 as of June 30, 2012.

In January 2011, the Board of Directors voted to approve \$2,000,000 for the purchase of state-of-the-art equipment, renovations and related expenses to support the Center for Personalized Cancer Therapy at the University of Massachusetts at Boston and the Dana-Farber/Harvard Cancer Center. For the years ended June 30, 2012 and 2011, the Center did not incur any expense or make any payments under the grant. Remaining payments under the grant are \$2,000,000 as of June 30, 2012.

In February 2011, the Board of Directors voted to approve \$3,466,158 for thirty-two equipment grants for purposes of providing grants for purchasing or leasing equipment to train students in life sciences technology and research. For the year ended June 30, 2012, the Center expensed \$482,780 of which all was paid prior to June 30, 2012. For the year ended June 30, 2011, the Center expensed \$2,850,896. There are no remaining payments as of June 30, 2012 under the authorized grant.

In January 2012, the Board of Directors voted to approve \$14,600,000 for the construction of the Bio-Manufacturing Center at the University of Massachusetts at Dartmouth to enable companies to set up small scale manufacturing operations for bio-processing operations. For the year ended June 30, 2012 the Center expensed \$971,003 of which all was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the grant are \$14,600,000 as of June 30, 2012.

In January 2012, the Board of Directors voted to approve \$20,000,000 to three awardees under the Center's FY12 Capital Project Matching Grant Program. These grants will be used to fund the Molecular Cancer Imaging Facility at the Dana Farber Cancer Institute which systematically examines patient tumors and matches targeted therapy to specific molecular changes in cancer cells; the Transitional Center for the Cure of Diabetes at the Joslin Diabetes Center, which focuses on the acceleration of basic discoveries into clinical research and care; and the Hall of Human Life Exhibit at the Museum of Science Boston, allowing the public a view into the innovative work being carried out in the life sciences community and inspire the next generation of researchers. For the year ended June 30, 2012 the Center expensed \$574,400 of which all was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the grants are \$20,000,000 as of June 30, 2012.

Massachusetts Life Sciences Center
Notes to Financial Statements
June 30, 2012 and 2011

In April 2012, the Board of Directors voted to approve \$10,000,000 to construct and equip Nanomedicine and Nanobiomedical laboratories within the Emerging Technologies and Innovation Center at the University of Massachusetts at Lowell to be utilized for hands on student learning, research, development and industry partnership activities. For the year ended June 30, 2012, the Center did not incur any expense or make any payments under the grant. Remaining payments under the grant are \$10,000,000 as of June 30, 2012.

In April 2012, the Board of Directors voted to approve \$11,400,000 for the benefit of the University of Massachusetts at Dartmouth for the acquisition of land, improvements and related parking for the Advance Technology Manufacturing Center in Fall River from the Massachusetts Development Finance Authority in fiscal year 2015, pursuant to the Life Sciences Act. For the year ended June 30, 2012, the Center did not incur any expense or make any payments under the grant. Remaining payments under the grant are \$11,400,000 as of June 30, 2012.

In May 2012, the Center's Board of Director awarded \$500,000 in a Small Business Matching grant to one life sciences company in Massachusetts. To qualify for the program companies must have received a Phase II or Post Phase II small business innovation research (SBIR) or small business technology transfer (STTR) grant 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, 2012 the Center expensed \$500,000 of which all was not paid as of June 30, 2012 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the grant are \$500,000 as of June 30, 2012. In May 2010, the Board of Directors awarded \$1,500,000 in Small Business Matching Grants to three life science companies in Massachusetts. In May 2011, the Center's Board of Director awarded \$2,000,000 in Small Business Matching grants to four life sciences companies in Massachusetts. For the year ended June 30, 2011 the Center expensed \$2,000,000. There no remaining payments under the grants as of June 30, 2012.

Total remaining payments for all capital program grants as of June 30, 2012 are \$94,280,875.

Facility Lease

In December 2008, the Center entered into a 5 year noncancelable 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, 2012 and 2011, deferred rent in the amount of \$44,791 and \$62,648, respectively, has been recorded. Rent expense under the operating lease was \$159,256 for the year ended June 30, 2012 and 2011.

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

	Amount
2013	\$ 183,000
2014	141,000
2015	-
2016	-
2017	-
Thereafter	<u>\$ 324,000</u>

Massachusetts Life Sciences Center
Notes to Financial Statements
June 30, 2012 and 2011

8. Subsequent Events

Management has evaluated subsequent events through September 26, 2012.

In July 2012, the Center disbursed \$750,000 to one of the April 2012 Accelerator loan program awardees.

In August 2012, the Center disbursed \$1,080,000 to two of the April 2012 Accelerator loan program awardees.

In September 2012, The Center entered into a Memorandum of Agreement (MOA) with the Economic Development and Industrial Corporation of Boston to operate an internship program. The MOA provides up to a maximum of \$800,000 through March 2016.