

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth
of Massachusetts)

Financial Statements and Reports Required
for Audits Performed in Accordance with
Government Auditing Standards

June 30, 2016 and 2015

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RSM US LLP

Independent Auditor's Report

To the Board of Directors of the
Massachusetts Life Sciences Center

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Massachusetts Life Sciences Center (the "Center"), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Massachusetts Life Sciences Center as of June 30, 2016 and 2015, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3–6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued reports dated September 27, 2016 and September 25, 2015, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance.

RSM US LLP

Boston, Massachusetts
September 27, 2016

**Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)**

Management's Discussion and Analysis (unaudited)

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, 2016, 2015 and 2014. 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 industry 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, equipment, upgrades to roads, 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 on behalf of the Department of Revenue ("DOR") 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 basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as promulgated by the Governmental Accounting Standards Board ("GASB"). The Center's financial statements are reported as a special purpose business type entity. The Center's annual report includes three basic financial statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows.

The statement of net position presents the financial position of the Center as of June 30, 2016 and 2015. It provides information about the nature and the amount of resources (assets), plus deferred outflows (as applicable), obligations (liabilities), plus deferred inflows (as applicable) and net position.

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Management's Discussion and Analysis (unaudited)

Using the financial statements (continued): The statement of revenues, expenses and changes in net position presents the changes in net position over the course of the years ended June 30, 2016 and 2015. The change in net position may be useful in assessing whether the financial position improved or deteriorated for the year.

The statement of cash flows presents the cash activities segregated by four major cash flow categories; operating activities, noncapital financing activities, capital and related financing activities and investing activities. This statement may be useful in determining the changes in liquidity and in understanding how cash and cash equivalents were used during the years ended June 30, 2016 and 2015.

Financial highlights: Fiscal year 2016 is the eighth 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 seventh round of awards under the Life Sciences Tax Incentive Program were granted.

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 \$10.0 million in fiscal year 2016, \$11.4 million in fiscal year 2015 and \$19.5 million in fiscal year 2014.

In fiscal year 2016, the Center incurred \$6.7 million of grant expense compared to \$6.9 million of grant expense in fiscal year 2015 and \$4.4 million in fiscal year 2014. The expenses were for research grants, workforce development programs, and programs that support innovation in life sciences. The \$0.2 million decrease of grant expense from fiscal year 2016 to 2015 is due to timing of awards and fewer programs. The \$2.5 million increase of grant expense from fiscal year 2015 to 2014 is due to the addition of two new programs unveiled in fiscal year 2015: the Milestone Achievement Program and Universal Partnership program. Remaining payment commitments as of June 30, 2016 on the outstanding grants are approximately \$9.1 million.

In fiscal year 2016, the Board of Directors authorized \$1.5 million for early stage company loans under the Life Sciences Accelerator Loan program. The loan program provides working capital to early stage companies at a critical stage of development. From prior year authorizations, the Center awarded \$4.0 million in fiscal year 2015 and \$2.5 million in fiscal year 2014. Of the \$1.5 million in investment funds awarded in fiscal year 2016, none have been disbursed as of June 30, 2016.

Capital programs: The Capital Program was created by the Life Sciences Act and is for municipalities and institutions for buildings, equipment, upgrades to roads, sewer lines and other infrastructure that supports growth in the life sciences sector. 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 2016, the Center incurred \$50.2 million of grant expense compared to \$74.8 million in fiscal year 2015 and approximately \$47.7 million in fiscal year 2014. The decrease in fiscal year 2016 from 2015 is due to payments for qualifying expenses relating to grants awarded in prior years and the recognition of delayed expenses of \$11.4 million for one project in fiscal year 2015. The increase in fiscal year 2015 from 2014 is due to payments for qualifying expenses relating to grants awarded in prior years and the recognition of delayed expenses of \$11.4 million for one project in fiscal year 2015.

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 2016, the Center incurred \$3.8 million of expense. The Center incurred \$3.0 million and \$1.6 million of expense in fiscal year 2015 and 2014, respectively.

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Management's Discussion and Analysis (unaudited)

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 on behalf of the DOR. 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 \$20.9 million to 28 companies in fiscal year 2016, \$19.0 million to 11 companies in fiscal year 2015 and \$24.4 million to 32 companies in fiscal year 2014.

Investment income: Investment income in fiscal year 2016 was \$170,495 compared to \$90,100 in fiscal year 2015 and \$67,600 in fiscal year 2014. Investment income relates to interest earned throughout the fiscal year on the Center's cash and cash equivalent balance. The increase in fiscal year 2016 from fiscal year 2015 is due to higher balances and interest rates. The increase in fiscal year 2015 from fiscal year 2014 is due to higher balances.

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 2016, the Center incurred approximately \$2.9 million of administrative expenses and purchases of property and equipment. In fiscal year 2015 and 2014, the Center incurred approximately \$3.5 million and \$3.2 million of administrative expenses, respectively. The decrease in expenditures in fiscal year 2016 from fiscal year 2015 is due to lower costs related to open staff positions, communications programs, administrative expenses, and purchases of property and equipment. The increase in expenditures in fiscal year 2015 from fiscal year 2014 is due to higher staffing costs related to new hires, communications programs and purchases of property and equipment. For the fiscal years ended June 30, 2016, June 30, 2015 and June 30, 2014, the headcount of the Center was eighteen, nineteen and nineteen, respectively.

Liquidity of the investment fund: From inception through June 30, 2016, the Investment Fund has received appropriations from the Commonwealth of \$125.9 million. In addition, the Center has earned investment income of approximately \$2.5 million and collected approximately \$8.9 million through loan repayments, sponsorship, insurance proceeds, and corporate consortium revenues for total inflows of approximately \$137.3 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, 2016, the Center has disbursed or reserved approximately \$120.4 million resulting in approximately \$16.9 million of available funds as of June 30, 2016.

Budgets and appropriations: Annual operating budgets are developed on a basis consistent with GAAP. The Center's annual operating budgets are developed through an internal process and reviewed and modified as appropriate by the Center's executive management. The annual operating budget is presented to the Center's Board of Directors for final approval and adoption. The budget approved by the Board is used for purposes of management accountability. The budget passed by the Board is not, however, considered a legally adopted budget and, therefore, is not presented as required, supplemental information to the financial statements.

**Massachusetts Life Sciences Center
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Management's Discussion and Analysis (unaudited)

Financial summary: The following summarizes the Statement of Net Position and Revenue, Expenses and Changes in Net Position for fiscal years 2016, 2015 and 2014.

	June 30, 2016	June 30, 2015	June 30, 2014
Assets			
Current assets:	\$ 69,219,571	\$ 91,926,541	\$ 76,006,642
Assets held on behalf of Neuroscience Consortium	773,873	872,177	1,891,305
Assets held in escrow	-	-	11,400,000
Noncurrent assets	6,483,777	5,912,333	5,058,350
Capital assets	40,234	69,939	74,535
Total assets	<u>\$ 76,517,455</u>	<u>\$ 98,780,990</u>	<u>\$ 94,430,832</u>
Liabilities			
Current liabilities	\$ 30,877,582	\$ 51,967,916	\$ 36,474,679
Noncurrent liabilities	773,873	997,177	13,416,305
Total liabilities	<u>31,651,455</u>	<u>52,965,093</u>	<u>49,890,984</u>
Net Position			
Net investment in capital assets	40,234	69,939	74,535
Unrestricted	44,825,766	45,745,958	44,465,313
Total net position	<u>44,866,000</u>	<u>45,815,897</u>	<u>44,539,848</u>
Total liabilities and net position	<u>\$ 76,517,455</u>	<u>\$ 98,780,990</u>	<u>\$ 94,430,832</u>
Statements of Revenues, Expenses and Changes in Net Position			
Revenues and Expenses			
Operating revenues	\$ 54,764,313	\$ 78,534,919	\$ 50,147,640
Operating expenses	(65,884,705)	(88,738,758)	(59,070,293)
Operating loss	<u>(11,120,392)</u>	<u>(10,203,839)</u>	<u>(8,922,653)</u>
Nonoperating revenues	170,495	90,119	67,574
Capital contributions	10,000,000	11,389,769	19,500,000
(Decrease) increase in net position	<u>\$ (949,897)</u>	<u>\$ 1,276,049</u>	<u>\$ 10,644,921</u>

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Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,852,612	\$ 13,861,738
Accounts receivable	193,157	251,749
Grant reimbursement receivable from Commonwealth of Massachusetts	28,156,201	46,462,821
Loans receivable, net	187,500	150,000
Interest receivable, net	112,796	70,999
Assets held on behalf of Neuroscience Consortium	773,873	872,177
Prepaid expenses and other current assets	47,997	46,463
Assets committed under programs and awards:		
Cash and cash equivalents	23,669,308	31,082,771
Total current assets	69,993,444	92,798,718
Non-current assets:		
Loans receivable, net	5,237,097	4,928,250
Interest receivable, net	1,246,680	984,083
Net property and equipment	40,234	69,939
Total noncurrent assets	6,524,011	5,982,272
Total assets	\$ 76,517,455	\$ 98,780,990
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 467,687	\$ 293,974
Grants payable and accrued grant expense	30,409,895	51,673,942
Total current liabilities	30,877,582	51,967,916
Noncurrent liabilities:		
Unearned revenue - Corporate Consortium	-	125,000
Agency obligation to the Neuroscience Consortium	773,873	872,177
Total liabilities	31,651,455	52,965,093
Net Position		
Net investment in capital assets	40,234	69,939
Unrestricted	44,825,766	45,745,958
Total net position	44,866,000	45,815,897
Total liabilities and net position	\$ 76,517,455	\$ 98,780,990

See notes to financial statements.

Massachusetts Life Sciences Center
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

	2016	2015
Operating income:		
Capital program revenues from Commonwealth of Massachusetts	\$ 53,988,420	\$ 77,645,075
Grant revenues	198,413	163,490
Sponsorship - Corporate Consortium	139,449	258,868
Interest income	438,031	467,486
Total operating income	54,764,313	78,534,919
Operating expenses:		
Grant expense	60,687,029	84,507,384
Salary and related employee expenses	1,893,121	2,229,767
Professional and consulting fees	355,854	439,108
Communications programs, sponsorships and contributions	216,185	293,867
General and administrative expenses	459,739	505,064
Loan loss reserve expense	2,237,598	732,420
Depreciation	35,179	31,148
Total operating expenses	65,884,705	88,738,758
Operating loss	(11,120,392)	(10,203,839)
Non-operating revenues:		
Investment income	170,495	90,119
Total nonoperating revenues	170,495	90,119
Loss before capital contributions	(10,949,897)	(10,113,720)
Contributions from the Commonwealth of Massachusetts	10,000,000	11,389,769
(Decrease) increase in net position	(949,897)	1,276,049
Net position:		
Beginning of year	45,815,897	44,539,848
End of year	\$ 44,866,000	\$ 45,815,897

See notes to financial statements.

Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts for reimbursements from the Commonwealth	\$ 72,295,040	\$ 63,517,472
Payments for grants	(81,951,076)	(68,871,061)
Payments for salary and related employee expenses	(1,820,583)	(2,246,480)
Payments for professional consulting fees	(355,854)	(564,608)
Payments for general and administrative expenses	(359,081)	(480,329)
Payments for communication programs, sponsorships and contributions	(216,185)	(419,688)
Receipts for grant revenues	255,988	184,023
Receipts for loan interest income	201,139	-
Receipts for sponsorships	14,449	258,868
Receipts for refunded grants	-	109,444
Net cash used in operating activities	(11,936,163)	(8,512,359)
Cash flows from capital and related financing activities:		
Receipt of contributions from the Commonwealth of Massachusetts	10,000,000	11,389,769
Net cash provided by capital and related financing activities	10,000,000	11,389,769
Cash flows from investing activities:		
Purchase of property and equipment	(5,474)	(26,550)
Issuance of loans	(2,999,696)	(1,500,000)
Repayment of loans	348,249	160,080
Receipt of investment income	170,495	90,119
Net cash used in investing activities	(2,486,426)	(1,276,351)
Net (decrease) increase in cash and cash equivalents	(4,422,589)	1,601,059
Cash and cash equivalents:		
Beginning of year	44,944,509	43,343,450
End of year	<u>\$ 40,521,920</u>	<u>\$ 44,944,509</u>
Reconciliation of cash flows from operating activities:		
Operating loss	\$ (11,120,392)	\$ (10,203,839)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	35,179	31,148
Loan loss reserve	2,237,598	732,420
Loan Interest reserve	1,000,361	708,169
Changes in assets and liabilities:		
Accounts receivable	58,592	18,571
Grant reimbursement from Commonwealth	18,306,620	(14,127,603)
Interest receivable	(1,237,253)	(1,175,653)
Prepaid expenses and other current assets	(1,534)	11,191
Accounts payable and accrued expenses	173,713	(252,530)
Grants payable and accrued grant expense	(21,264,047)	15,745,767
Unearned revenues - Corporate Consortium	(125,000)	-
Total adjustments	(815,771)	1,691,480
Net cash used in operating activities	\$ (11,936,163)	\$ (8,512,359)

See notes to financial statements.

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 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. In that legislation, 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 and administrator 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, equipment, upgrades to roads, 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 on behalf of the Department of Revenue (DOR) to companies at every stage of development.

All grants and awards to be made by the Center require approval by its Board of Directors (the "Board of Directors").

The Center is governed by a seven member 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.

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

Note 2. Significant Accounting Principles

Accounting and reporting standards: These financial statements have been prepared in accordance with GAAP, as prescribed by GASB codification section 2100, which establishes standards for defining and reporting on the financial reporting entity.

The GASB defines the basic financial statements of a business type activity as the: statement of net position, statement of revenues, expenses and changes in net position, and the statement of cash flows. The statement of net position is presented to illustrate both the current and noncurrent balances of each asset and liability. All revenues and expenses are classified as either operating or non-operating activities in the statement of revenues, expenses and changes in net position. 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.

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Notes to Financial Statements

Note 2. Significant Accounting Principles (Continued)

Accounting and reporting standards (Continued): The GASB requires that resources be classified into three categories of net position. Net position represents the residual interest in the Center's assets plus deferred outflows (as applicable) of resources after liabilities plus deferred inflows (as applicable) of resources are deducted and consist of: net investment in capital assets, restricted, and unrestricted, as follows:

Net Investment in capital assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. For fiscal year 2016 and 2015 there were no deferred outflows or inflows of resources.

Restricted: Restricted net position represents the portion of net position 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. At June 30, 2016 and 2015, the Center does not maintain any restricted net position.

Unrestricted: Unrestricted net position represents the portion of net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may be otherwise limited by contractual agreements with outside parties. The Center's unrestricted net position includes appropriations received from the Commonwealth that are to be used 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.

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

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 from the date of acquisition.

Cash and cash equivalents or reserved for awards and programs: Such amounts represent cash and cash equivalents to be expended for programmatic purposes based upon specific awards being made or programs authorized by the Board of Directors.

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Notes to Financial Statements

Note 2. Significant Accounting Principles (Continued)

Investments: The Center's investments are reported at fair value using quoted market price or the best available estimate thereof. Fair value is defined by GASB Statement No. 72, *Fair Value Measurement and Application*. The Authority categorizes its fair value measurements within the fair value GAAP hierarchy. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenues, expenses and changes in net position. The Center's investments in 2016 and 2015 qualified to be reported as cash equivalents.

Revenue recognition: Investment income is recognized as earned. Sponsorship revenues represent fees collected from companies for providing tradeshow booths and other space at industry trade shows. 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 and, accordingly, revenues are recognized over the specified time period.

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

Capital program revenues are amounts due to the Center from the Commonwealth for related capital program expenditures by grantees of the Center. Capital program grantees submit requests for reimbursement to the Center after funds have been expended. The Center then bills the Commonwealth for these grantee expenses and recognizes the corresponding revenue.

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

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, 2016, \$23,191,196 of loans receivable had been authorized and \$21,691,196 had been disbursed. During fiscal year 2016, the Center funded \$2,999,696 million in new loans and one borrower repaid their loans in full with a repayment of principal of \$257,000 and one borrower partially repaid their loan with a repayment of principal of \$91,250. As of June 30, 2015, \$22,691,196 of loans receivable had been authorized and \$18,691,500 had been disbursed. During fiscal year 2015, the Center funded \$1,500,000 in new loans and one borrower partially repaid their loan with a repayment of principal of \$160,000. Due to the nature of the loans made under this program, reserves are established at the time the loans are granted at a rate commensurate with management's estimate of historic loan loss. On a periodic basis, the Center assesses the collectability of each loan and records adjustments to those reserves based on an assessment of the financial condition of the borrower and loan performance. As of June 30, 2016, \$14,457,866 of loans receivable were outstanding and \$9,033,269 had been reserved for losses, resulting in net loans receivable of \$5,424,597. As of June 30, 2015, \$12,556,420 of loans receivable were outstanding and \$7,478,170 has been reserved for losses, resulting in net loans receivable of \$5,078,250. In May of 2016, the Center wrote off a loan receivable in the amount of \$750,000. This loan was fully reserved in fiscal year 2015. The Center had no write-offs or recoveries in fiscal year 2015.

**Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)**

Notes to Financial Statements

Note 2. Significant Accounting Principles (Continued)

Loans receivable and interest receivable, net (continued): As of June 30, 2016, the gross interest receivable balance was \$4,305,598. As of June 30, 2015, the gross interest receivable balance was \$3,377,584. On a periodic basis, the Center assesses the collectability of the interest receivable and establishes a loss reserve in a manner consistent with loss reserves for loans receivable. As of June 30, 2016, \$2,946,122 had been reserved resulting in net interest receivable of \$1,359,476. As of June 30, 2015, \$2,322,502 has been reserved resulting in net interest receivable of \$1,055,082. 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.

Property and equipment, net: Property, equipment, and leasehold improvements with a value greater than \$500 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 \$35,179 and \$31,148 for the years ended June 30, 2016 and 2015, 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

Grant expense and grants payable: Grant expenses represent the current period cost of qualifying grant expenditures pursuant to the terms of each grant program. The Center had grant expense of \$60,687,029 and \$84,507,384 for fiscal year 2016 and 2015, respectively. As of June 30, 2016 and 2015, \$30,409,895 and \$51,673,942, respectively, was recorded as grants payable and accrued grant expense, representing grant expense incurred but not yet paid.

Income taxes: Pursuant to Massachusetts General Laws chapter 231 §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 benefit plan: All employees of the Center participate in either the Commonwealth of Massachusetts State Retirement systems under a special funding situation where the Commonwealth of Massachusetts is a 100% non-employer contributor under GASB Statement 68 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 (the "State Plan"). An actuarial valuation has been performed for the State Plan. The Center's employees were included in the actuarial analysis and a net pension liability of \$927,814 and \$585,993 as of June 30, 2016 and 2015, respectively, is owed by the Commonwealth of Massachusetts and noted as part of the total State Plan's net pension liability. The State Plan's net pension liability and net position are disclosed in the footnotes and other required supplementary information of the Comprehensive Annual Financial Report of the Commonwealth of Massachusetts as there are no liabilities to be recorded in the Center's statements. The Center has not included all required GASB Statement 68 disclosures as GASB Statement 68 is deemed immaterial to the Center.

**Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)**

Notes to Financial Statements

Note 2. Significant Accounting Principles (Continued)

Defined contribution plan: In fiscal year 2010, as provided by the 2008 Statute, the Center established the optional defined contribution pension 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, 2016 and 2015 was \$143,691 and \$167,967, respectively. Vesting is immediate upon contribution. The Center pays administrative expenses of the Plan for the plan participants and VOYA is the custodian of the plan's assets. The balances of the plan are not included in the financial statements of the Center.

Related party-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. In fiscal year 2016, the Consortium received \$1,250,000 plus interest from membership contributions plus interest from membership contributions to date held within the segregated bank account of the Center. In fiscal year 2015, the Consortium received \$500,000 plus interest from membership contributions to date held within the segregated bank account of the Center. The Consortium issued payments in the amount of \$1,349,594 and \$1,522,008 during fiscal years 2016 and 2015, respectively. The asset and corresponding liability balances of the Consortium are included in the financial statements of the Center as of June 30, 2016 and 2015. If the Consortium was to terminate, all remaining funds would be due back to the contributing members on a pro-rata basis.

Recent accounting pronouncements: In February 2015, GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*, which defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash.

Before the issuance of Statement No. 72, state and local governments have been required to disclose how they arrived at their measures of fair value if not based on quoted market prices. Under the new guidance, those disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments. The provisions of this standard are effective for reporting periods beginning after June 15, 2015 and have been reflected in Note 4.

**Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)**

Notes to Financial Statements

Note 2. Significant Accounting Principles (Continued)

Recent accounting pronouncements (continued): In December 2015, GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This provision establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The provisions of this standard are effective for reporting periods beginning after June 15, 2015. The adoption of this standard did not have a significant impact on the Center's financial statements.

Note 3. Related Party Transactions

Certain of the Center's Board of Director's members have relationships with institutions that have received grants from the Center. 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 recuse themselves.

Note 4. Cash and Cash Equivalents

The Board of the Center is empowered under Chapter 23I of the Massachusetts General Law ("MGL"), which shall have all powers necessary or convenient to carry out and effectuate its purposes, including, without limiting the generality of the foregoing, the powers: to invest any funds held in reserves or sinking funds, or the Massachusetts Life Sciences Investment Fund, or any funds not required for immediate disbursement, in such investments as may be provided in any financing document relating to the use of such funds, or, if not so provided, as the Board of Directors may determine. During fiscal year 2016 and 2015, the majority of these assets were allocated to short-term investments/money market accounts which qualify as cash equivalents carried at amortized cost.

Custodial credit risk – deposits: Custodial credit risk for deposits exists when, in the event of failure of a depository financial institution, the Center's deposits may not be recovered. The Center does not have a policy for custodial risk. At June 30, 2016, bank deposits were \$5,582,277 which excludes the amount held in the Massachusetts Municipal Depository Trust ("MMDT" or the "Trust"). The Center invests some of its funds in the MMDT, an external investment pool for political subdivisions of the Commonwealth designed as a legal means to invest temporarily available cash. The state treasurer serves as trustee of MMDT, and has sole authority pertaining to rules, regulations and operations of the Trust. Investment options the MMDT offers are a cash portfolio which offers participation in a diversified portfolio of high-quality money-market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity and Short-Term Bond Portfolio which offers participation in a diversified portfolio of investment-grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, presenting a fixed-income alternative with a longer time horizon than the cash portfolio. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized. The Center's investment balance as of June 30, 2016 at MMDT was solely in the cash portfolio. The cash portfolio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

**Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)**

Notes to Financial Statements

Note 4. Cash and Cash Equivalents (Continued)

Custodial credit risk – deposits (continued): The cash portfolio adheres to GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which amends Statement No. 31 and establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

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

	<u>2016</u>	<u>2015</u>
Cash deposits	\$ 5,582,277	\$ 10,151,738
MMDT Cash Portfolio	34,939,643	34,792,771
	<u>\$ 40,521,920</u>	<u>\$ 44,944,509</u>

Note 5. Property and Equipment, Net

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

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 129,136	\$ 126,934
Office furniture	179,543	178,819
Leasehold improvements	103,157	103,157
	<u>411,836</u>	<u>408,910</u>
Accumulated depreciation	(371,602)	(338,971)
Property and equipment, net	<u>\$ 40,234</u>	<u>\$ 69,939</u>

Note 6. Accounts Payable and Accrued Expenses

As of June 30, 2016 and 2015, accounts payable and accrued expenses totaled \$467,687 and \$293,974, respectively. Those expenses primarily accounted for accrued salary, professional and consulting fees and marketing expenses.

Note 7. Grants and Commitments

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

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, 2016, the Center expensed \$157,857 of which \$52,811 is not paid and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2015, the Center expensed \$77,508 and also reversed \$16,294 of expense due to actual expense less than an estimate provided by an awardee from a previous fiscal year. Remaining commitments under the authorized grants are \$357,254 as of June 30, 2016.

**Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)**

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Investment fund (continued): In April 2011, the Board of Directors voted to approve \$1,000,000 for two cooperative research grants. For the year ended June 30, 2016, the Center expensed no dollars. For the year ended June 30, 2015, the Center expensed and paid \$257,548. As of June 30, 2016, there are no remaining commitments under the program.

In June 2013, the Board of Directors voted to approve \$2,000,000 for four cooperative research grants. For the year ended June 30, 2016, the Center expensed \$256,536 of which \$35,512 is not paid and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2015, the Center expensed \$1,091,439. Remaining commitments under the authorized grants are \$35,512 as of June 30, 2016.

In June 2015, the Board of Directors voted to approve \$1,990,380 for six cooperative research grants. For the year ended June 30, 2016, the Center expensed \$395,278 dollars of which \$310,271 was not paid and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2015, the Center expensed no dollars. Remaining commitments under the authorized grants are \$1,905,372 as of June 30, 2016.

In December 2015, the Board of Directors authorized \$3,700,000 for the 2016 Internship Challenge Program which is a year round program. For the year ended June 30, 2016, the Center expensed \$1,052,005 for the program, of which \$1,052,005 was not paid as of June 30, 2016 and is included in grants payable and accrued grant expense on the statement of net position. In December 2014, the Board of Directors authorized \$3,000,000 for the 2015 Internship Challenge Program which is a year round program. For the year ended June 30, 2016, the Center expensed \$1,795,186 for the program, of which \$260,083 was not paid as of June 30, 2016 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2015, the Center expensed \$765,320 for the program. In December 2013, the Board of Directors authorized \$3,000,000 for the 2014 Internship Challenge Program which is a year round program. For the year ended June 30, 2016, the Center reversed \$33,275 of expense due to an over accrual in fiscal year 2015. For the year ended June 30, 2015, the Center expensed \$1,882,834 for the program. In December 2012, the Board of Directors authorized \$3,200,000 for the 2013 Internship Challenge Program. For the year ended June 30, 2016, the Center expensed no dollars. The Center reversed \$75,580 of expense in fiscal year 2015 due to an over accrual in fiscal year 2014. Remaining payments under all authorized Internship Challenge Programs are \$4,399,577. In May 2015, the Board of Directors voted to approve 12 awards totaling \$2,242,335 in grant funding for the Milestone Achievement Program ("MAP") to enable early stage companies in achieving critical, value creating milestones. For the year ended June 30, 2016, the Center expensed \$983,582 of which \$67,582 was not paid as of June 30, 2016 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2015, the Center expensed \$1,054,520. Remaining commitments under the grants are \$271,816 as of June 30, 2016.

**Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)**

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Other grants: The Center has made grants to various business plan competitions, workforce development and educational programs to foster company development and collaboration between Massachusetts and international organizations and expand life sciences education and workforce within the Commonwealth. For the fiscal years ended June 30, 2016 and June 30, 2015 the Center had \$369,562 and \$1,005,844 of active discretionary grants, respectively. In fiscal year 2016 the Center expensed \$156,797 of which \$59,000 was unpaid as of June 30, 2016 and is included in grants payable and accrued grant expenses in the statement of net position. In fiscal year 2015 the Center expensed \$453,648. Remaining commitments under the authorized grants are \$114,893 as of June 30, 2016.

In May of 2012, the Center made one award of \$300,000 to the Massachusetts Eye and Ear Infirmary under the Northern Ireland Massachusetts Connection Program, which has a goal of creating biotech research and business collaborations between Massachusetts, Northern Ireland and Europe. In fiscal year 2012, the Board of Directors authorized two awards for \$300,000 under the Massachusetts Israeli Innovation Partnership Program to foster international collaboration on early-stage life sciences projects. One of the awards will not be funded due to the awardee's inability to comply with requirements of the program. In fiscal year 2013, the Board of Directors authorized two awards totaling \$450,170 under the second round of the Massachusetts Israeli Innovation Partnership Program. In February of 2014, the Board of Directors authorized four awards for \$1,059,750 under the International Collaborative Industry Program. In February 2015, the Board of Directors authorized four awards for \$1,600,000 under the second round of the International Collaborative Industry Program. One of the awards will not be funded due to the awardee declined the award. During fiscal year 2015, the Board of Directors authorized seven awards totaling \$1,363,400 under the Universal Partnership Program which provides grants to Massachusetts companies to support collaboration on R&D with a non-U.S. organization. During fiscal year 2016, the Board of Directors authorized six additional awards totaling \$929,705 under the Universal Partnership Program. In September 2014, the Board of Directors authorized \$550,000 to Center for the Advancement of Science in Space ("CASIS") for administering a program to permit Massachusetts companies and schools to perform scientific experiments on the International Space Station. In April 2016, the Board of Directors authorized \$100,000 for a High School Apprenticeship pilot program to provide opportunities for underserved and under-represented high school students to receive "lab readiness" training. In May 2016, the Board of Directors authorized \$400,000 for professional development for teachers engaged in the education of life sciences in connection with the Center's capital equipment and supplies grants program. The Center expensed \$1,919,063 related to the above programs, of which \$363,317 was unpaid and is included in grants payable and accrued grant expense on the statement of net position as of June 30, 2016. Remaining commitments under the authorized grants are \$2,050,661 as of June 30, 2016.

Total remaining commitments for all Investment Fund grants as of June 30, 2016 are \$9,135,085.

**Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)**

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Capital program grants: The following table summarizes active grants in fiscal year 2016 and 2015 under the Capital Program:

Awardee	Location	Award Amount	Expensed Prior to FY15	Expensed FY15	Expensed FY16	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2016	Remaining payments as of June 30, 2016
Baystate Medical	Springfield	\$ 5,500,000	\$ 2,178,804	\$ 2,863,264	\$ 457,932	\$ 330,218	\$ 330,218
Boston Children's Hospital	Boston	4,014,031	3,503,798	510,233	-	-	-
Boston Children's Hospital	Boston	2,263,133	-	-	414,701	110,225	1,958,657
Boston University Medical School	Boston	1,743,648	-	-	1,648,875	1,340,495	1,435,268
Boston University - BIC	Boston	363,750	-	-	363,750	356,929	356,929
Brigham & Women's Hospital	Boston	2,603,537	-	-	1,640,155	1,407,273	2,370,655
City of Pittsfield	Pittsfield	9,725,000	55,000	460,761	301,365	30,516	8,938,390
City of Taunton	Taunton	55,000	-	32,450	22,550	-	-
Framingham State	Framingham	3,000,000	-	3,000,000	-	-	-
FY14 College Planning/Equip	Various	811,135	727,799	83,336	-	-	-
FY15 College Planning/Equip	Various	2,491,464	-	1,753,252	526,926	340,931	552,217
FY16 College Planning/Equip	Various	1,835,000	-	-	1,806,577	1,415,546	1,443,969
Harvard Medical School	Cambridge	5,000,000	3,250,000	1,049,921	700,000	660,502	660,581
Holyoke Community College	Holyoke	3,800,000	-	3,000,000	800,000	-	-
Just-A-Start Corporation	Cambridge	49,992	-	-	49,992	-	-
Lab Central	Cambridge	5,000,000	-	-	-	-	5,000,000
North Shore Biotech Consortium	See Note	5,000,000	-	4,243,131	114,801	103,491	745,559
M.I.T.	Cambridge	1,838,000	-	83,041	1,754,959	1,754,959	1,754,959
MA Green High Performing Computing Ctr	Holyoke	4,540,000	1,863,961	1,553,116	15,225	-	1,107,698
Middlesex Community College	Bedford/Lowell	3,000,000	-	-	-	-	3,000,000
New Bedford	New Bedford	75,000	20,000	55,000	-	-	-
Northern Essex Community College	Haverhill/Lawrence	1,242,000	410,880	816,830	14,290	-	-
Quinsigamond Community College	Worcester	5,000,000	-	-	742,266	648,124	4,905,858
Roxbury Community College	Roxbury Crossing	3,000,000	-	-	999,694	995,199	2,995,505
Springfield Technical Community College	Springfield	972,850	-	-	968,433	653,770	658,187
The Forsyth Institute	Boston	4,133,215	3,209,951	923,264	-	-	-
The Forsyth Institute	Boston	2,210,229	-	-	1,439,644	1,054,667	1,825,252
UMASS Amherst	Amherst	95,000,000	11,927,681	28,767,103	28,009,924	11,226,942	37,522,234
UMASS Boston - DF/HCC	Boston	10,000,000	1,828,744	842,903	3,167,120	1,743,124	5,904,357
UMASS Boston - VDC	Boston	588,848	-	310,155	156,769	156,769	278,693
UMASS Dartmouth - ATMC	Fall River	11,400,000	-	11,400,000	-	-	-
UMASS Lowell - ETIC	Lowell	10,000,000	7,981,358	2,018,642	-	-	-
UMASS Lowell - Innovation Hub	Lowell	5,046,697	-	4,251,573	749,634	172,664	218,154
UMASS Medical School	Boston	5,000,000	-	3,484,300	1,487,133	1,487,133	1,515,700
UMASS Medical School - MassBiologics	Boston	5,000,000	-	3,189,961	1,810,039	798	798
Venture Café	Boston	347,000	145,144	62,325	53,997	10,137	95,671
Wellesley College	Wellesley	50,000	-	-	13,695	13,695	50,000
		\$ 221,699,529	\$ 37,103,120	\$ 74,754,561	\$ 50,230,446	\$ 26,014,107	\$ 85,625,509

Note: the North Shore Biotech Consortium is comprised of the following organizations: Endicott College, Gordon College, Salem State University, North Shore Community College and North Shore Innoventures.

STEM Equipment and Supplies:

Year	Location						
FY15 Program	Various	\$ 3,151,174	\$ -	\$ 2,999,956	\$ 151,218	\$ -	\$ -
FY16 Program	Various	3,774,535	-	-	3,606,756	2,195,205	2,362,984
		\$ 6,925,709	\$ -	\$ 2,999,956	\$ 3,757,974	\$ 2,195,205	\$ 2,362,984

Other capital programs: In May 2012, the Center's Board of Directors 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"). The Center did not offer the program in fiscal year 2013. For the year ended June 30, 2015, the Center did not incur any expense under the program. The Center did recover \$109,444 from a prior awardee under the program in fiscal year 2015. There no remaining commitments under the program as of June 30, 2016. Total remaining commitments for all capital program grants as of June 30, 2016 are \$87,988,493 which is contingent upon the Commonwealth fulfilling their funding obligations to the Center.

**Massachusetts Life Sciences Center
(A Component Unit of the Commonwealth of Massachusetts)**

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Facility lease: In December 2008, the Center entered into a 5 year noncancelable operating lease through March 2014 for its facilities in Waltham, Massachusetts. In June 2013, the Center renewed its lease with expansion space to be occupied in October 2013. The renewed lease is through March 2019. Rent expense under the operating lease was \$263,175 for each of the years ended June 30, 2016 and June 30, 2015.

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

2017	\$	263,000
2018		263,000
2019		<u>197,000</u>
	\$	<u>723,000</u>

Note 8. Subsequent Events

Management has evaluated subsequent events through September 27, 2016.

In July 2016, the Center disbursed \$750,000 to a May 2016 Accelerator loan program awardee.

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

To the Board of Directors of the
Massachusetts Life Sciences Center
Waltham, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Massachusetts Life Sciences Center (the "Center"), a component unit of the Commonwealth of Massachusetts as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Center's basic financial statements, and have issued our report thereon dated September 27, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

RSM US LLP

Boston, Massachusetts
September 27, 2016