

# **Massachusetts Life Sciences Center**

**Financial Statements with Management's  
Discussion and Analysis  
June 30, 2011 and 2010**

# Massachusetts Life Sciences Center

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June 30, 2011 and 2010

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## Report of Independent Auditors

To the Board of Directors of the  
Massachusetts Life Sciences Center

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses, and changes in net assets and statements of cash flows present fairly, in all material respects, the financial position of the Massachusetts Life Sciences Center (the "Center") as of June 30, 2011 and 2010, and the results of operations and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

*PricewaterhouseCoopers LLP*

September 26, 2011

# **Massachusetts Life Sciences Center**

## **Management's Discussion and Analysis (unaudited)**

### **June 30, 2011 and 2010**

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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, 2011, 2010 and 2009. 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").

#### **Financial Highlights**

Fiscal year 2011 reflects a year of significant operating activities of the Center as grants were made both from the Investment Fund and Capital Programs and a second round of awards under the Life Sciences Tax Incentive Program were made.

# **Massachusetts Life Sciences Center**

## **Management's Discussion and Analysis (unaudited)**

### **June 30, 2011 and 2010**

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#### **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 2011, \$10 million in fiscal year 2010, \$15 million in fiscal year 2009 and \$15 million in fiscal year 2008.

In fiscal year 2011, the Board of Directors authorized \$4.5 million in commitments as compared to \$4.4 million in fiscal year 2010 and \$20.7 million in fiscal year 2009. The commitments were for research grants, workforce development programs, and programs that support innovation in life sciences. The slight increase in fiscal year 2011 from fiscal year 2010 is due to an expansion of existing programs. The decrease in commitments in fiscal year 2010 from fiscal year 2009 is due to reduced funding from the Commonwealth of Massachusetts. In fiscal year 2011, the Center incurred \$6.6 million of grant expense compared to \$9.1 million in fiscal year 2010 and \$10.8 million in fiscal year 2009. 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. The decrease in fiscal year 2010 from fiscal year 2009 is due to the lower level of disbursements for expenditures made on fiscal year 2010 programs. Remaining payment commitments as of June 30, 2011 on the outstanding grants are approximately \$11.8 million.

In fiscal year 2011, the Board of Directors authorized \$6 million for early stage company loans under the Life Sciences Accelerator Loan program for fiscal year 2012. The loan program provides working capital to early stage companies at a critical stage of development. From prior year authorizations, the Center awarded \$3.75 million in fiscal year 2011 and \$2.5 million in fiscal year 2010. \$2.7 million of the investment funds awarded in fiscal year 2011 have not been disbursed as of June 30, 2011.

#### **Capital Programs**

The Capital Program was created by the Life Sciences Act and is for municipalities and institutions for buildings, upgrades to roads, sewer lines and other infrastructure that supports growth in the life sciences sectors. The Life Sciences Act provides for \$500 million to the Capital Program over 10 years. The Capital Program is funded by the Commonwealth of Massachusetts. In fiscal year 2011, the Center entered into one new commitment for \$2.0 million and authorized an additional \$1.4 million for an existing grant. In fiscal year 2011, the Center incurred \$29.1 million of grant expense compared to approximately \$28.5 in fiscal year 2010 and \$9.9 million in fiscal year 2009. The increase in fiscal year 2011 from fiscal year 2010 is due to prior commitments incurring greater expense in fiscal year 2011. The increase in grant expense in fiscal year 2010 from fiscal year 2009 was due to expenditures for awards made in fiscal year 2010 and fiscal year 2009 projects incurring expense in fiscal year 2010. The Life Sciences Act also provides for a 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 \$3.5 million. In fiscal year 2011, the Center incurred \$2.9 million of grant expense under the program.

# **Massachusetts Life Sciences Center**

## **Management's Discussion and Analysis (unaudited)**

### **June 30, 2011 and 2010**

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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 2011, the Center made four awards totaling \$2 million 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 nine different tax incentives with a cumulative cap of \$25 million per year for 10 years. The tax incentives have no financial impact on the Center. The Center awarded \$20.9 million to 24 companies in fiscal year 2011, \$24.4 million to 26 companies in fiscal year 2010, and did not make any awards in fiscal year 2009.

#### **Investment Income**

Investment income in fiscal year 2011 was \$86,000 compared to \$113,000 in fiscal year 2010 and \$516,000 in fiscal year 2009. Investment income relates to interest earned throughout the fiscal year on the Center's cash and cash equivalent balance. The decrease in fiscal year 2011 from fiscal year 2010 is due to a lower average balance. The decrease in fiscal year 2010 from fiscal year 2009 is due to lower interest rates and deployment of funds.

#### **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 2011, the Center incurred approximately \$2.2 million of administrative expenses and purchases of property and equipment. In fiscal year 2010 and 2009 the Center incurred approximately \$2.3 million and \$2.5 million, respectively, of 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. The decrease in expenditures in fiscal year 2010 from fiscal year 2009 is due a reduction in professional fees offset by the first full year of fully-staffed operating and facility expenses. For the fiscal years ended June 30, 2011, June 30, 2010 and June 30, 2009, the headcount of the Center was nine, nine, and ten, respectively.

#### **Liquidity of the Investment Fund**

From inception through June 30, 2011, the Investment Fund has received appropriations from the Commonwealth of \$60 million. In addition, the Center has received investment income of approximately \$2 million in sponsorship and corporate consortium revenues of approximately \$2.4 million during the corresponding period for total inflows of approximately \$64.4 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, 2011, the Center has disbursed or reserved approximately \$62.1 million resulting in approximately \$2.3 million of available funds as of June 30, 2011.

**Massachusetts Life Sciences Center**  
**Balance Sheet**  
**June 30, 2011 and 2010**

	2011	2010
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 27,279,085	\$ 26,669,099
Accounts receivable	64,900	411,767
Grant reimbursement from the Commonwealth	19,715,000	9,667,583
Interest receivable, net	198,126	149,850
Prepaid expenses and other current assets	38,517	20,561
Total current assets	<u>47,295,628</u>	<u>36,918,860</u>
Loans receivable, net	2,012,500	1,450,000
Property and Equipment	298,772	296,096
Accumulated depreciation	(198,754)	(111,096)
Net property and equipment	<u>100,018</u>	<u>185,000</u>
Total non-current assets	<u>2,112,518</u>	<u>1,635,000</u>
Total assets	<u>\$ 49,408,146</u>	<u>\$ 38,553,860</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 231,438	\$ 144,642
Grants payable and accrued grant expense	22,717,961	12,465,752
Other current liabilities	125,000	416,667
Total current liabilities	<u>23,074,399</u>	<u>13,027,061</u>
Deferred rent	62,648	74,651
Total liabilities	<u>23,137,047</u>	<u>13,101,712</u>
<b>Net Assets</b>		
Invested in capital assets	100,018	185,000
Unrestricted net assets	26,171,081	25,267,148
Total net assets	<u>26,271,099</u>	<u>25,452,148</u>
Total liabilities and net assets	<u>\$ 49,408,146</u>	<u>\$ 38,553,860</u>

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

**Massachusetts Life Sciences Center**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**Years Ended June 30, 2011 and 2010**

	2011	2010
<b>Operating revenues</b>		
Capital program revenues from the Commonwealth	\$ 34,000,000	\$ 30,000,000
Sponsorship / corporate consortium revenues	607,567	499,550
Interest income	178,864	140,151
Total operating income	<u>34,786,431</u>	<u>30,639,701</u>
<b>Operating expenses</b>		
Grant expense	40,564,217	39,149,907
Salary and related employee expenses	1,277,158	1,419,959
Professional and consulting fees	202,576	244,345
Communications programs, sponsorships and contributions	326,516	308,408
General and administrative expenses	383,184	298,420
Loan loss reserve expense	1,212,500	1,951,781
Depreciation	87,659	88,681
Total operating expenses	<u>44,053,810</u>	<u>43,461,501</u>
Operating loss	(9,267,379)	(12,821,800)
Non-operating revenues		
Investment income	86,330	113,320
Total non-operating revenues	<u>86,330</u>	<u>113,320</u>
Loss before capital contributions	(9,181,049)	(12,708,480)
Contributions from the Commonwealth	10,000,000	10,000,000
Increase (decrease) in net assets	818,951	(2,708,480)
<b>Net assets</b>		
Beginning of year	<u>25,452,148</u>	<u>28,160,628</u>
End of year	<u>\$ 26,271,099</u>	<u>\$ 25,452,148</u>

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



**Massachusetts Life Sciences Center**  
**Statement of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Receipts for reimbursements from the Commonwealth	\$ 23,952,583	\$ 21,922,808
Payments for grants	(30,312,008)	(30,483,810)
Payments for salary and related employee expenses	(1,268,000)	(1,539,331)
Payments for professional consulting fees	(173,363)	(275,496)
Payments for general and administrative expenses	(437,340)	(221,243)
Payments for communication programs, sponsorships and contributions	(253,894)	(402,660)
Receipts for interest income	130,587	-
Receipts for sponsorships	662,767	342,709
Net cash used in operating activities	<u>(7,698,668)</u>	<u>(10,657,023)</u>
<b>Cash flows from capital and related financing activities</b>		
Receipt of contributions from the Commonwealth	10,000,000	10,000,000
Net cash provided by capital and related financing activities	<u>10,000,000</u>	<u>10,000,000</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(2,676)	(81,669)
Issuance of loans	(2,775,000)	-
Repayment of loans	1,000,000	-
Receipt of investment income	86,330	113,320
Net cash (used in) provided by investing activities	<u>(1,691,346)</u>	<u>31,651</u>
Net increase (decrease) in cash and cash equivalents	<u>609,986</u>	<u>(625,372)</u>
<b>Cash and cash equivalents</b>		
Beginning of year	26,669,099	27,294,471
End of year	<u>\$ 27,279,085</u>	<u>\$ 26,669,099</u>
<b>Reconciliation of cash flows from operating activities</b>		
Operating loss	\$ (9,267,379)	\$ (12,821,800)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	87,659	88,681
Loan loss reserve	1,212,500	1,950,000
Loan interest reserve	186,484	149,849
Changes in assets and liabilities		
Accounts receivable	346,867	(323,508)
Grant reimbursement from the Commonwealth	(10,047,417)	(8,077,192)
Interest receivable	(234,761)	(288,220)
Prepaid expenses and other current assets	(17,956)	(6,982)
Accounts payable and accrued expenses	86,796	(209,114)
Grants payable and accrued grant expense	10,252,209	8,666,097
Deferred rent	(12,003)	48,499
Other current liabilities	(291,667)	166,667
Total adjustments	<u>1,568,711</u>	<u>2,164,777</u>
Net cash used in operating activities	<u>\$ (7,698,668)</u>	<u>\$ (10,657,023)</u>

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

# Massachusetts Life Sciences Center

## Notes to Financial Statements

### June 30, 2011 and 2010

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#### 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.

#### 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, 2011 and 2010

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#### ***Invested in Capital Assets***

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

#### ***Restricted***

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

#### ***Unrestricted***

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

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

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

#### **Revenue Recognition**

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

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

Capital program revenues are amounts due to the Center by the Commonwealth 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, 2011 and 2010

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#### **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, 2011, \$8,975,000 of loans receivable has been authorized and \$6,175,000 has been disbursed. During fiscal year 2011, two borrowers repaid back their loans in full with a combined repayment of principal of \$1,000,000. In April 2010, the Center wrote off a loan receivable in the amount of \$500,000 as loan loss reserve expense. On a periodic basis, the Center assess the collectability of each loan and establishes a loss reserve. As of June 30, 2011, \$4,675,000 of loans receivable are outstanding and \$2,662,500 has been reserved for losses, resulting in net loans receivable of \$2,012,500.

As of June 30, 2011, the gross interest receivable balance was \$534,460. On a periodic basis, the Center assesses the collectability of the interest receivable and establishes a loss reserve. As of June 30, 2011, \$336,334 has been reserved resulting in net interest receivable of \$198,126. Interest is due at the end of the loan term or upon repayment of the loan due to a qualified financing of greater than \$5,000,000.

#### **Grant Expense and Grants Payable**

Grant expenses are related to grant awardees in the period incurred. The Center had grant expense of \$40,564,217 and \$39,149,907 for fiscal year 2011 and 2010, respectively. As of June 30, 2011 and 2010, \$22,717,961 and \$12,465,752, 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 for the years ended June 30, 2011 and 2010 was \$80,536 and \$100,850, 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.

#### **Reclassifications**

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

**Massachusetts Life Sciences Center**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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**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, 2011 and 2010.

<b>June 30, 2011</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Cash deposits	\$ 3,748,111	\$ 3,748,111
Massachusetts Municipal Depository Trust	23,530,974	23,530,974
Total at June 30, 2011	<u>\$ 27,279,085</u>	<u>\$ 27,279,085</u>
<b>June 30, 2010</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
Cash deposits	\$ 1,714,055	\$ 1,714,055
Massachusetts Municipal Depository Trust	24,955,044	24,955,044
Total at June 30, 2010	<u>\$ 26,669,099</u>	<u>\$ 26,669,099</u>

**Custodial Credit Risk—Deposits**

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

**Interest Rate Risk**

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

	<b>2011</b>	<b>2010</b>
<b>Depository accounts</b>		
Insured	\$ -	\$ -
Uninsured and uncollateralized	27,279,085	26,699,099
Total cash deposits	<u>\$ 27,279,085</u>	<u>\$ 26,699,099</u>

**Massachusetts Life Sciences Center**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

As of June 30, 2011 and 2010, the Massachusetts Municipal Depository Trust investment maturities are summarized as follows:

2011 Investment Type	Investment Maturities (in Years)				
	Fair Value	Less than 1	1-5	6-10	More than 10
Corporate bonds	\$ -	\$ -	\$ -	\$ -	\$ -
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	-	-	-
Bank notes	-	-	-	-	-
Asset-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 investments	23,519,396	23,519,396	-	-	-
Net other assets / liabilities	11,578	11,578	-	-	-
Net assets	<u>\$ 23,530,974</u>	<u>\$ 23,530,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

**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 \$87,659 and \$88,681 for the years ended June 30, 2011 and 2010, 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

**Massachusetts Life Sciences Center**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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Property and equipment, net, at June 30, 2011 and 2010 consisted of the following:

	2011	2010
Computer equipment	\$ 92,537	\$ 92,537
Office furniture	132,776	130,100
Leasehold improvements	73,459	73,459
	<u>298,772</u>	<u>296,096</u>
Accumulated depreciation	(198,754)	(111,096)
Property and equipment, net	<u>\$ 100,018</u>	<u>\$ 185,000</u>

**6. Accounts Payable and Accrued Expenses**

As of June 30, 2011 and 2010, accounts payable and accrued expenses totaled \$231,438 and \$144,642, respectively. Those expenses primarily accounted for accrued salary, professional and consulting fees and reimbursements owed to the Massachusetts Technology Collaborative.

**7. Grants and Commitments**

**Investment Fund**

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

In 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. For the year ended June 30, 2011, the Center expensed \$1,117,081, of which \$330,015 was not paid as of June 30, 2011 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grants are \$1,021,697 as of June 30, 2011.

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, 2011, the Center expensed \$2,207,626 of which \$994,173 was not paid as of June 30, 2011 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grants are \$3,588,535 as of June 30, 2011.

In December 2008, the Board of Directors voted to approve \$3,786,867 for six cooperative research grants over a three-year period to foster collaborations between scientists, academic institutions and industry. For the year ended June 30, 2011, the Center expensed \$832,739 of which \$637,682 was not paid as of June 30, 2011 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grants are \$2,538,912 as of June 30, 2011.

# Massachusetts Life Sciences Center

## Notes to Financial Statements

### June 30, 2011 and 2010

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In April 2011, the Board of Directors voted to approve \$1,000,000 for two cooperative research grants. 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, 2011.

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

In December 2010 and May 2011, the Board of Directors authorized \$2,200,000 for the Internship Challenge Program which was expanded to a year round program. For the year ended June 30, 2011, the Center expensed \$535,665 of which \$535,665 was not paid as of June 30, 2011 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized program are \$2,200,000. In the winter and spring of 2010, the Board of Directors authorized up to \$1,160,000 for the expenditures for the 2010 internship challenge Program. For the 2010 program \$615,400 was expensed and paid in fiscal year 2011. For the year ended June 30, 2010, the Center expensed \$435,525 of which \$435,525 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expenses on the balance sheet. The total expense of the 2010 internship challenge program was \$1,050,925. There were no remaining payments for the 2010 internship challenge program as of June 30, 2011. In February 2009, the Board of Directors authorized up to \$500,000 of expenditures for 2009 Internship Challenge Program. For the 2009 internship challenge program \$262,244 was expensed and paid in fiscal year 2010 and \$189,946 was expensed and paid in fiscal year 2009. Total expense for the 2009 internship challenge program was \$452,190. There were no remaining payments for the 2009 program as of June 30, 2010.

In June 2009, the Board of Directors voted to approve \$1,380,256 for seven new investigator grants to various research centers. For the year ended June 30, 2011, the Center expensed \$603,783 of which \$285,368 was not paid as of June 30, 2011 and is included in grants payable and accrued grant expenses on the balance sheet. For the year ended June 30, 2010, the Center expensed \$511,031 of which \$275,420 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized program are \$550,808.

In July 2009, the Board of Directors voted to approve \$600,000 for three new investigator matching grants. For the year ended June 30, 2011, the Center expensed \$278,591 of which \$147,826 was not paid as of June 30, 2011 and is included in grants payable and accrued grant expense on the balance sheet. For the year ended June 30, 2010, the Center expensed \$167,975 of which \$102,155 was not paid as of June 30, 2010 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized program are \$301,260.



# Massachusetts Life Sciences Center

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#### **Other Grants**

The Center also made \$735,000 of grants to various business plan competitions, workforce development and educational programs to foster company development and expand life sciences education and workforce within the Commonwealth. For the year ended June 30, 2011, the Center expensed \$139,371 of which \$112,455 was not paid as of June 30, 2011 and is included in grant payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grant are \$588,084 as of June 30, 2011. The Center made a \$50,000 grant to the Massachusetts Life Sciences Collaborative to launch and develop a formal Massachusetts Biomanufacturing Roundtable to support and promote the retention and growth of biomanufacturing in Massachusetts. For the year ended June 30, 2011, the Center expensed and paid \$23,959. Remaining payments under the authorized grant are \$5,042 as of June 30, 2011.

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. For the year ended June 30, 2011, the Center expensed and paid \$210,000. There are no remaining payments under the authorized grant.

Total remaining payments for all Investment Fund grants as of June 30, 2011 are \$11,794,338.

#### **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, 2011, the Center expensed \$2,883,475 of which \$416,801 was not paid as of June 30, 2011 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grant are \$6,184,588 as of June 30, 2011.

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

# Massachusetts Life Sciences Center

## Notes to Financial Statements

### June 30, 2011 and 2010

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In March 2009, the Board of Directors voted to approve \$9,500,000 for the construction and capital improvements of the Tufts University Cummings School of Veterinary Medicine New England Regional Biosafety Laboratory to improve the public health, protect public safety, improve science education and stimulate economic development. For the year ended June 30, 2010, the Center expensed and paid \$2,505,300. There are no remaining payments under the authorized grant.

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, 2011, the Center expensed \$25,888,094 of which \$14,183,903 was not paid as of June 30, 2011 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the authorized grant are \$65,015,751 as of June 30, 2011.

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, 2011, the Center expensed \$377,536 of which \$244,330 was not paid as of June 30, 2011 and is included in grants payable and accrued grants expense on the balance sheet. Remaining payments under the grant are \$5,016,794 as of June 30, 2011.

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. 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, 2011 the Center expensed \$2,000,000 of which all was not paid as of June 30, 2011 and is included in grants payable and accrued grant expense on the balance sheet. Remaining payments under the grant are \$2,000,000 as of June 30, 2011.

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 year ended June 30, 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, 2011.

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, 2011, the Center expensed \$2,850,896 of which \$2,829,743 was not paid on June 30, 2011 and is included in the grants payable and accrued expense on the balance sheet. Remaining payments under the authorized program are \$3,445,005.

Total remaining payments for all capital program grants as of June 30, 2011 are \$83,662,138.

# Massachusetts Life Sciences Center

## Notes to Financial Statements

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#### 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, 2011 and 2010, deferred rent in the amount of \$62,648 and \$74,651, respectively, has been recorded. Rent expense under the operating lease was \$159,256 for the year ended June 30, 2011.

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

	<b>Amount</b>
2012	\$ 177,000
2013	183,000
2014	141,000
2015	-
2016	-
Thereafter	-
	<hr/> <b>\$ 501,000</b> <hr/>

#### 8. Subsequent Events

In July 2011, as part of the fiscal year 2012 Commonwealth of Massachusetts budget, a tenth tax incentive was added to the Center's Life Sciences Tax Incentive Program.

In July 2011, the Center disbursed \$750,000 to one of the March 2011 Accelerator loan program awardees.

In July 2011, the Center determined it will not fund one of the fiscal year 2011 Accelerator awardees. The award amount was \$750,000.

In August 2011, the Center disbursed \$450,000 to one of the March 2011 Accelerator loan program awardees.