Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth
of Massachusetts)

Financial Statements

Years Ended June 30, 2013 and 2012

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

FINANCIAL STATEMENTS
Years Ended June 30, 2013 and 2012

C O N T E N T S

McGladrey

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Massachusetts Life Sciences Center (the "Center"), a component unit of the Commonwealth of Massachusetts, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

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 audit. We conducted our audit 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 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 Massachusetts Life Sciences Center as of June 30, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Center, as of and for the year ended June 30, 2012, were audited by other auditors whose report dated September 26, 2012 expressed an unmodified opinion on those statements.

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.

McGladrey LLP

Boston, Massachusetts
September 23, 2013

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis (unaudited)
June 30, 2013 and 2012

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, 2013, 2012 and 2011. 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, 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 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 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, 2013. It provides information about the nature and the amount of resources (assets), obligations (liabilities) and net position.

The statement of revenues, expenses and changes in net position presents the changes in net position over the course of the year ended June 30, 2013. The change in net position may be useful in assessing whether the financial position improved or deteriorated for the year.

Using the Financial Statements…continued

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 year ended June 30, 2013.

Financial Highlights

Fiscal year 2013 is the fifth 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 fourth 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 $15 million in fiscal year 2013, $10 million in fiscal year 2012 and $10 million in fiscal year 2011.

In fiscal year 2013, the Board of Directors authorized $6.4 million in commitments as compared to $5.1 million in fiscal year 2012 and $4.5 million in fiscal year 2011. The commitments were for research grants, workforce development programs, and programs that support innovation in life sciences. The increase in fiscal year 2013 commitments from fiscal year 2012 is due to one additional program in fiscal year 2013 offset by funding for a prior investment. The increase in fiscal year 2012 from fiscal year 2011 is due to an expansion of existing programs and a new international innovation program. In fiscal year 2013, the Center incurred $4.4 million of grant expense compared to $6.8 million in fiscal year 2012 and $6.6 million in fiscal year 2011. The decrease of expense from fiscal year 2013 to 2012 is due to the timing of both new awards and the fulfillment of prior awards. The slight increase in expense in fiscal year 2012 from fiscal year 2011 is due to the timing of programs. Remaining payment commitments as of June 30, 2013 on the outstanding grants are approximately $9 million.

In fiscal year 2013, the Board of Directors authorized $6 million for early stage company loans under the Life Sciences Accelerator Loan program for fiscal year 2014. The loan program provides working capital to early stage companies at a critical stage of development. From prior year authorizations, the Center awarded $6 million in fiscal year 2013 and $3.15 million in fiscal year 2012. Of the $6 million in investment funds awarded in fiscal year 2013, approximately $4 million have not been disbursed as of June 30, 2013.

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 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 2013, the Center entered into 19 new commitments for $135.1 million. In fiscal year 2013, the Center incurred $52.4 million of grant expense compared to approximately $42.5 million in fiscal year 2012 and $29.1 million in fiscal year 2011. The increase in fiscal year 2013 from 2012 is due to payments for qualifying expenses relating to grants awarded in prior years together with new fiscal year 2013 projects. The increase in fiscal year 2012 from fiscal year 2011 is due to prior commitments incurring greater expense in fiscal year 2012. The Life Sciences Act also provides for a Life Sciences Education fund for providing grants for purchasing or leasing equipment to train students in life sciences and research. In fiscal year 2011, the Center made 32 grants for a new program to vocational/technical high schools, community colleges and other workforce development programs totaling nearly $3.4 million and incurring expense of $2.9 million. In fiscal year 2012, no new awards were made and the Center incurred $483,000 of grant expense under the program from prior year awards. In fiscal year 2013, the Center made 31 grants for under the program totaling nearly $3.2 million and incurring expense of $1.6 million.

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. The program was not offered in fiscal year 2013 and in fiscal year 2012, the Center made one award totaling $500,000 under the program. In fiscal year 2013, The Center recovered $39,991 from a prior awardee.

Life Sciences Tax Incentive Program

The Life Sciences Tax Incentive Program was created by the Life Sciences Act and allows the Center to award tax incentives to companies at every stage of development. The Center has the ability to award ten different tax incentives with a cumulative cap of $25 million per year for 10 years. The tax incentives have no financial impact on the Center. The Center awarded $23 million to 24 companies in fiscal year 2013, $20.3 million to 26 companies in fiscal year 2012, and $20.9 million to 24 companies in fiscal year 2011.

Investment Income

Investment income in fiscal year 2013 was $58,000 compared to $73,000 in fiscal year 2012 and $86,000 in fiscal year 2011. Investment income relates to interest earned throughout the fiscal year on the Center's cash and cash equivalent balance. The decrease in fiscal year 2013 from fiscal year 2012 is due to lower interest rates. The decrease in fiscal year 2012 from fiscal year 2011 is due to a lower average balance. The decrease in fiscal year 2011 from fiscal year 2010 is due to a lower average balance.

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis (unaudited)
June 30, 2013 and 2012

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 2013, the Center incurred approximately $2.7 million of administrative expenses and purchases of property and equipment. In fiscal year 2012 and 2011, the Center incurred approximately $2.2 million of administrative expenses. The increase in expenditures in fiscal year 2013 from fiscal year 2012 is due to higher staffing costs due to new hires and communications programs. The same level of expenditures in fiscal year 2012 from fiscal year 2011 is due to higher staffing costs as a result of a full year of costs for open positions filled during fiscal year 2011 offset by lower fiscal year 2012 communications programs, professional fees and administrative expenses. For the fiscal years ended June 30, 2013, June 30, 2012 and June 30, 2011, the headcount of the Center was fourteen, ten, and nine, respectively.

Liquidity of the Investment Fund

From inception through June 30, 2013, the Investment Fund has received appropriations from the Commonwealth of $85 million. In addition, the Center has earned investment income of approximately $2.1 million and collected approximately $5.3 million through loan repayments, sponsorship, insurance proceeds, and corporate consortium revenues for total inflows of approximately $92.4 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, 2013, the Center has disbursed or reserved approximately $88.1 million resulting in approximately $4.3 million of available funds as of June 30, 2013.

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth of Massachusetts)

Statements of Net Position

June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 32,671,311**	$ 27,513,436
Accounts receivable	**61,906**	-
Grant reimbursement from Commonwealth of Massachusetts	**27,741,371**	17,464,289
Interest receivable, net	**594,183**	351,674
Assets held on behalf of Neuroscience Consortium	**1,750,143**	-
Prepaid expenses and other current assets	**54,019**	49,646
Total current assets	**62,872,933**	45,379,045
Noncurrent assets:		
Loans receivable, net	**4,166,000**	2,503,500
Property and equipment, net	**32,916**	31,683
Total noncurrent assets	**4,198,916**	2,535,183
Total assets	**$ 67,071,849**	$ 47,914,228
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	**$ 287,050**	$ 201,371
Grants payable and accrued grant expense	**31,118,651**	20,466,488
Total current liabilities	**31,405,701**	20,667,859
Noncurrent liabilities:		
Other liabilities	**21,078**	44,791
Agency obligations payable to Neuroscience Consortium	**1,750,143**	-
Total liabilities	**33,176,922**	20,712,650
NET POSITION		
Invested in capital assets	**32,916**	31,683
Unrestricted	**33,862,011**	27,169,895
Total net position	**33,894,927**	27,201,578
Total liabilities and net position	**$ 67,071,849**	$ 47,914,228

See notes to financial statements.

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth of Massachusetts)

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenue:		
Capital program revenues from Commonwealth of Massachusetts	**$ 53,932,867**	$ 43,500,000
Grant revenues	**205,359**	-
Sponsorship / Corporate Consortium	**38,980**	131,300
Interest income	**388,623**	392,911
Other revenues	**55,250**	-
Total operating revenue	**54,621,079**	44,024,211
Operating expenses:		
Grant expense	**58,294,078**	50,265,235
Salary and related employee expenses	**1,573,275**	1,438,984
Professional and consulting fees	**336,985**	180,152
Communications programs, sponsorships and contributions	**300,304**	224,874
General and administrative expenses	**423,569**	368,248
Loan loss reserve expense	**2,037,500**	616,000
Depreciation	**20,228**	73,386
Total operating expenses	**62,985,939**	53,166,879
Operating loss	**(8,364,860)**	(9,142,668)
Non-operating revenues:		
Investment income	**58,209**	73,147
Total nonoperating revenues	**58,209**	73,147
Loss before capital contributions	**(8,306,651)**	(9,069,521)
Contributions from the Commonwealth of Massachusetts	**15,000,000**	10,000,000
Increase in net position	**6,693,349**	930,479
Net position:		
Beginning of year	**27,201,578**	26,271,099
End of year	**$ 33,894,927**	$ 27,201,578

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Receipts for reimbursements from the Commonwealth	**$ 43,655,785**	$ 45,750,711
Payments for grants	**(47,641,914)**	(52,516,708)
Payments for salary and related employee expenses	**(1,558,089)**	(1,424,832)
Payments for professional consulting fees	**(316,767)**	(161,574)
Payments for general and administrative expenses	**(438,376)**	(389,814)
Payments for communication programs, sponsorships and contributions	**(263,874)**	(295,091)
Receipts for grant revenues	**144,018**	-
Receipts for interest income	**146,114**	239,363
Receipts for sponsorships	**38,980**	64,900
Receipts for other liabilities	**55,250**	6,300
Net cash used by operating activities	**(6,178,873)**	(8,726,745)
Cash flows from non-capital and related financing activities:		
Receipt of contributions from the Commonwealth of Massachusetts	**15,000,000**	10,000,000
Net cash provided by capital and related financing activities	**15,000,000**	10,000,000
Cash flows from investing activities:		
Purchase or property and equipment	**(21,461)**	(5,051)
Issuance of loans	**(4,825,000)**	(2,207,000)
Repayment of loans	**1,125,000**	1,100,000
Receipt of investment income	**58,209**	73,147
Net cash used in investing activities	**(3,663,252)**	(1,038,904)
Net increase in cash and cash equivalents	**5,157,875**	234,351
Cash and cash equivalents:		
Beginning of year	**27,513,436**	27,279,085
End of year	**$ 32,671,311**	$ 27,513,436
Reconciliation of cash flows from operating activities:		
Operating loss	**$ (8,364,860)**	$ (9,142,668)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	**20,228**	73,386
Loan loss reserve	**2,037,500**	616,000
Loan interest reserve	**228,051**	215,599
Changes in assets and liabilities:		
Accounts receivable	**(61,906)**	64,900
Grant reimbursement from Commonwealth	**(10,277,082)**	2,250,711
Interest receivable	**(470,560)**	(369,147)
Prepaid expenses and other current assets	**(4,373)**	(11,129)
Accounts payable and accrued expenses	**85,678**	(30,067)
Grants payable and accrued grant expense	**10,652,164**	(2,251,473)
Deferred rent	**(23,713)**	(17,857)
Other current liabilities	**-**	(125,000)
Total adjustments	**2,185,987**	415,923
Net cash used in operating activities	**$ (6,178,873)**	$ (8,726,745)

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 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 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.

In accordance with the requirements of GASB Statement No. 14*, The Financial Reporting Entity, and GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units - an Amendment of GASB Statement 14*, the financial statements must present the Organization 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.

2. SIGNIFICANT ACCOUNTING PRINCIPLES

<u>Accounting and Reporting Standards</u>

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 ("GASB"), codification section 2100.

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

Accounting and Reporting Standards…continued

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, the statement of cash flows, and management's discussion and analysis as required supplemental information. The statement of net position is presented to illustrate both the current and noncurrent balances of each asset and liability. All revenues and expenses are classified as either operating or nonoperating activities in the statement of revenues, expenses and changes in net position. Operating activities are those that support the mission and purpose of the 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 position. Net position represents 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:

Invested in Capital Assets, Net of Related Debt

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 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, 2013 and 2012, the Center does not maintain any restricted net assets.

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.

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.

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth of Massachusetts)
Notes to Financial Statements
Years Ended June 30, 2013 and 2012

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

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 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. Revenues are recognized over the specified time period.

Interest income on loans is recognized as earned. Interest income is 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, 2013, $17,191,500 of loans receivable has been authorized and $13,207,000 has been disbursed. During fiscal year 2013, the Center funded $4,825,000 million in new loans and two borrowers repaid their loans in full with a combined repayment of principal of $1,125,000. 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, 2013, $8,732,000 of loans receivable are outstanding and $4,566,000 has been reserved for losses, resulting in net loans receivable of $4,166,000. In June of 2013, the Center wrote off a loan receivable in the amount of $750,000. This loan was fully reserved in fiscal year 2013. The Center had no write-offs or recoveries in fiscal year 2012.

As of June 30, 2013, the gross interest receivable balance was $1,374,167. 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, 2013, $779,984 has been reserved resulting in net interest receivable of $594,183. 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.

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

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 $20,228 and $73,386 for the years ended June 30, 2013 and 2012, 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 $58,294,078 and $50,265,235 for fiscal year 2013 and 2012, respectively. As of June 30, 2013 and 2012, $31,118,651 and $20,466,488, 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 23I §6(a), the operations of the Center constitute the performance of an essential government function and are therefore exempt from taxation by and within the Commonwealth.

Defined Contribution Plan

All employees of the Center participate in either the Commonwealth of Massachusetts State Retirement systems or the statutorily prescribed optional defined contribution plan provided by the Center. The Center makes no contributions for employees participating in the Commonwealth of Massachusetts State Retirement systems' pension plan. In fiscal year 2010, as provided by the 2008 Statute, the Center established the optional defined contribution plan. The Center annually contributes an amount equal to 12% (5% statutorily mandated) of an employee's annual gross salary less the cost of life and disability insurance. Total optional defined contribution expense by the Center for the years ended June 30, 2013 and 2012 was $105,347 and $94,715, respectively. Vesting is immediate upon contribution. The Center pays administrative expenses of the Plan for the plan participants and ING is the custodian of the plan's assets. The balances of the plan are not included in the financial statements of the Center.

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

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 2013, the Consortium received $1,750,000 plus interest from membership contributions to date held within the segregated bank account of the Center. The balances of the Consortium are included in the financial statements of the Center as of June 30, 2013. If the Consortium was to terminate, all remaining funds would be due back to the contributing members on a pro-rata basis.

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.

Recent Accounting Pronouncements

During the year ended June 30, 2013, the Center adopted GASB No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferring Inflows of Resources, and Net Position.* GASB No. 63 improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the entities net position. The adoption of this standard did not have a significant impact on the Center's financial statements.

In March 2012, the GASB issued GASB No. 65 – *Items Previously Reported as Assets and Liabilities*. GASB No. 65 provides clarification regarding the classification of deferred inflows and outflows of resources. The topics discussed in the standard are refunding of debt, nonexchange transactions, sales of future revenues, debt issuance costs, leases, acquisition of insurance costs, lending activities, mortgage banking, regulated activities, governmental fund revenue recognition and deferred revenue, major fund criteria and other items. For the Center, the amendments in GASB No. 65 are effective beginning with the periods beginning after December 15, 2012. Early adoption of the standard is permitted. The Center is currently evaluating the impact of adoption of the standard will have on its financial statements.

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

Recent Accounting Pronouncements…continued

In March 2012, the GASB issued GASB No. 66 – *Technical Correction – 2012* GASB No. 66 clarifies implementation issues that were presented in GASB No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The standard provides clarification that the purchase price of loans is to include the amount paid to the seller plus any fees paid, less any fees, received. For the Center, the amendments in GASB No. 66 are effective beginning with the periods beginning after December 15, 2012. Early adoption of the standard is permitted. The Center is currently evaluating the impact of adoption of the standard will have on its financial statements.

In June 2012, the GASB issued GASB No. 67 – *Financial Reporting for Pension Plans*. GASB No. 67 replaces requirements of GASB Statements No. 25 and No. 50, related to pension plans administered through trusts or similar arrangements. The standard uses existing framework for financial reports of defined benefit pension plans, including a statement of fiduciary net position and a statement of changes in fiduciary net position. The standard enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. In addition, the standard requires the presentation of information about annual money-weighted rates of return in the notes and in 10-year required supplementary information schedules. For the Center, the amendments in GASB No. 67 are effective beginning with the fiscal year beginning after June 15, 2013. Early adoption of the standard is permitted. The Center is currently evaluating the impact of adoption of the standard will have on its financial statements.

In June 2012, the GASB issued GASB No. 68 – *Accounting and Financial Reporting for Pensions*. GASB No. 68 replaces requirements of GASB Statements No. 27 and No. 50, related to pension plans administered through trusts or similar arrangements. The standard requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. In addition, the standard adds revised and new note disclosures and required supplementary information. For the Center, the amendments in GASB No. 68 are effective beginning with the fiscal year beginning after June 15, 2014. Early adoption of the standard is permitted. The Center is currently evaluating the impact of adoption of the standard will have on its financial statements.

In January 2013, the GASB issued GASB No. 69 – *Government Combinations and Disposals of Government Obligations*. The standard establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. GASB No. 69 is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. This standard is not expected to have a significant impact on the Center's financial statements.

2. **SIGNIFICANT ACCOUNTING PRINCIPLES**…continued

Recent Accounting Pronouncements…continued

In April 2013, the GASB issued GASB No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The standard requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. It requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. It also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The provisions of this standard are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. This standard is not expected to have a significant impact on the Center's financial statements.

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.

4. CASH AND CASH EQUIVALENTS

The Board of the Center is empowered under Chapter 23I of the 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 may determine. During fiscal year 2013 and 2012, these assets were majority allocated to short-term investments/money market accounts which qualify as cash equivalents and are 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, 2013, bank deposits were $6,014,068 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 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. 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. At June 30, 2013 The Center's deposits with MMDT totaled $26,657,243. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

4. CASH AND CASH EQUIVALENTS…continued

Custodial Credit Risk – Deposits...continued

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, 2013 and 2012.

	2013	2012
Cash deposits	$ 6,014,068	$ 2,913,399
Massachusetts Municipal Depository Trust ("MMDT") Cash Portfolio	26,657,243	24,600,037
	$ 32,671,311	$ 27,513,436

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Computer equipment	$ 101,603	$ 96,803
Office furniture	136,853	133,561
Leasehold improvements	86,828	73,459
	325,284	303,823
Accumulated depreciation	(292,368)	(272,140)
Property and equipment, net	$ 32,916	$ 31,683

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of June 30, 2013 and 2012, accounts payable and accrued expenses totaled $287,050 and $201,371, respectively. Those expenses primarily accounted for accrued salary, professional and consulting fees and marketing expenses.

7. GRANTS AND COMMITMENTS

Investment Fund

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

In October 2007, the Board of Directors voted to approve two grants for the University of Massachusetts Medical School: 1) $570,000 for funding for a stem cell registry; and 2) $7,665,000 for a stem cell bank. In June 2009, the Board of Directors voted to approve an additional $695,000 for the stem cell registry. In September 2010, the Board of Directors voted to approve an additional $440,000 for the stem cell registry. In January and May 2012, the Board of Directors voted to approve an additional $950,000 for the stem cell bank. In May 2013, the Board of Directors voted to approve an additional $270,000 for the stem cell registry. For the year ended June 30, 2013, the Center expensed $536,098 of which $116,725 was not paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2012, the Center expensed $994,149. Remaining commitments under the authorized grants are $310,244 as of June 30, 2013.

7. GRANTS AND COMMITMENTS…continued

Investment Fund…continued

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, 2013, the Center expensed $403,813 of which $353,084 was not paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2012, the Center expensed $1,558,045. Remaining commitments under the authorized grants are $979,809 as of June 30, 2013.

In December 2008, the Board of Directors voted to approve $3,786,867 for six cooperative research grants over a three-year period to foster collaborations between scientists, academic institutions and industry. In fiscal year 2012, one of the awards was mutually terminated due to a change in focus by the industry sponsor. The amount remaining on the terminated grant was $658,779. For the years ended June 30, 2013 and 2012, the Center expensed $ 30,413 and $1,061,638, respectively. As of June 30, 2013, $231,870 was not paid and is included in grants payable and accrued grant expense on the statement of net position. Remaining commitments under the authorized grants are $231,922 as of June 30, 2013.

In April 2011, the Board of Directors voted to approve $1,000,000 for two cooperative research grants. For the year ended June 30, 2013, the Center expensed $293,658, of which $272,317 was not paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2012, the Center expensed $127,897. Remaining commitments under the grants are $850,763 as of June 30, 2013.

In June 2013, the Board of Directors voted to approve $2,000,000 for four cooperative research grants. No expenses have been incurred on the grants as of June 30, 2013. Remaining commitments under the authorized grants are $2,000,000 as of June 30, 2013.

In December 2012, the Board of Directors authorized $3,200,000 for the 2013 Internship Challenge Program, which is a year round program. For the year ended June 30, 2013, the Center expensed $918,696, all of which was not paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. Remaining payments under the authorized program are $3,200,000. In December 2011 and June 2012, the Board of Directors authorized $3,200,000 for the 2012 Internship Challenge Program which was also a year round program. For the 2012 program, the Center expensed $1,573,275 in fiscal year 2013, of which $150,297 was not paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2012, the Center expensed $949,876 under the 2012 program. Remaining payments under the authorized program are $150,297. In the winter and spring of 2011, the Board of Directors authorized up to $2,200,000 for the expenditures for the 2011 Internship Challenge Program. For the 2011 program $1,327,048 was expensed in the fiscal year 2012. There are no remaining commitments under the authorized program.

Massachusetts Life Sciences Center

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Notes to Financial Statements
Years Ended June 30, 2013 and 2012

7. GRANTS AND COMMITMENTS…continued

Investment Fund…continued

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, 2013, the Center expensed $50,967, of which $41,203 was not paid as of June 30, 2013 and is included in grants payable and accrued grant expenses on the statement of net position. For the year ended June 30, 2012, the Center expensed $210,597. Remaining commitments as of June 30, 2013 under the authorized program are $ 41,203.

In July 2009, the Board of Directors voted to approve $600,000 for three new investigator matching grants. For the year ended June 30, 2013, the Center expensed $3,921, of which $14,044 was not paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2012, the Center expensed $144,606. Remaining commitments as of June 30, 2013 under the authorized program are $ 14,044.

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, 2013 and June 30, 2012 the Center had $983,970 of active discretionary grants. In fiscal year 2013 the Center expensed $278,919 of which $89,444 was unpaid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position as of June 30, 2013. For the year ended June 30, 2012, the Center expensed $354,586. Remaining commitments under the authorized grants are $397,188 as of June 30, 2013.

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 2013, the Center made two awards totaling $450,170 under the Center's Massachusetts Israeli Innovation Partnership Program to foster international collaboration on early-stage life sciences projects. For the year ended June 30, 2012, the Center made two awards under the program totaling $300,000, one of which will not be funded due to the awardee's inability to comply with requirements of the program. For the year ended June 30, 2013 the Center expensed $270,000 related to these international programs, of which $146,849 was unpaid and is included in grants payable and accrued grant expense on the statement of net position as of June 30, 2013. For the year ended June 30, 2012, the Center had no expenses under international programs. Remaining commitments under the authorized grants are $811,019 as of June 30, 2013.

In fiscal year 2012, the Center made an additional $50,000 grant to the Massachusetts Life Sciences Collaborative to launch and develop a formal Massachusetts Biomanufacturing Roundtable to support and promote the retention and growth of biomanufacturing in Massachusetts. The total amount of awards provided to the Massachusetts Biomanufacturing Roundtable is $100,000. For the year ended June 30, 2013, the Center expensed $1,451 of which all was paid as of June 30, 2013. For the year ended June 30, 2012 the Center expensed $36,792. Remaining commitments under the authorized grant are $11,757 as of June 30, 2013.

Total remaining commitments for all Investment Fund grants as of June 30, 2013 are $8,998,246

7. GRANTS AND COMMITMENTS…continued

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. The project was completed in fiscal year 2012 at a total cost of $12,860,534. For the year ended June 30, 2013, the Center had no expense. For the year ended June 30, 2012, the Center expensed $4,328,321. There are no remaining commitments as of June 30, 2013 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, 2013, the Center expensed $16,635,747, of which all was paid as of June 30, 2013. For the year ended June 30, 2012, the Center expensed $34,196,102. There are no remaining commitments as of June 30, 2013 under the authorized grant.

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, 2013, the Center expensed $2,210,768, of which $1,409,650 was not paid as of June 30, 2013 and is included in grants payable and accrued grants expense on the statement of net position. For the year ended June 30, 2012, the Center expensed $2,447,395. Remaining commitments under the grant are $1,523,951 as of June 30, 2013.

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, 2013, the Center expensed $232,910, of which none was paid as of June 30, 2013 and is included in grants payable and accrued grant expenses on the statement of net position. For the year ended June 30, 2012, the Center did not incur any expense or make any payments under the grant. Remaining commitments under the grant are $2,000,000 as of June 30, 2013.

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, 2013, the Center incurred no expense under the program. For the year ended June 30, 2012, the Center expensed $482,780 under the program. There are no remaining commitments as of June 30, 2013 under the authorized grant.

7. GRANTS AND COMMITMENTS…continued

Capital Program Grants…continued

In January 2012, the Board of Directors voted to approve $14,600,000 for the construction of the Bio-Manufacturing Center at the University of Massachusetts at Dartmouth to enable companies to set up small scale manufacturing operations for bio-processing operations. In December 2012, the Board of Directors voted to approve an additional $6,000,000 for Bio-Manufacturing Center. For the year ended June 30, 2013 the Center expensed $13,813,460, of which $11,769,727 has not been paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2012 the Center expensed $971,003. Remaining commitments under the grant are $17,585,264 as of June 30, 2013.

In January 2012, the Board of Directors voted to approve $20,000,000 to three awardees under the Center's FY12 Capital Project Matching Grant Program. These grants will be used to fund the Molecular Cancer Imaging Facility at the Dana Farber Cancer Institute which systematically examines patient tumors and matches targeted therapy to specific molecular changes in cancer cells; the Transitional Center for the Cure of Diabetes at the Joslin Diabetes Center, which focuses on the acceleration of basic discoveries into clinical research and care; and the Hall of Human Life Exhibit at the Museum of Science Boston, allowing the public a view into the innovative work being carried out in the life sciences community and inspire the next generation of researchers. For the year ended June 30, 2013 the Center expensed $11,880,054, of which $6,411,676 was not paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2012 the Center expensed $574,400. Remaining commitments under the grants are $13,957,222 as of June 30, 2013.

In April 2012, the Board of Directors voted to approve $10,000,000 to construct and equip Nanomedicine and Nanobiomedical laboratories within the Emerging Technologies and Innovation Center at the University of Massachusetts at Lowell to be utilized for hands-on student learning, research, development and industry partnership activities. For the year ended June 30, 2013, the Center expensed $4,549,910, of which none was paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2012, the Center did not incur any expense or make any payments under the grant. Remaining commitments under the grant are $10,000,000 as of June 30, 2013.

In April 2012, the Board of Directors voted to approve $11,400,000 for the benefit of the University of Massachusetts at Dartmouth for the acquisition of land, improvements and related parking for the Advance Technology Manufacturing Center in Fall River from the Massachusetts Development Finance Authority in fiscal year 2015, pursuant to the Life Sciences Act. For the years ended June 30, 2013 and 2012, the Center did not incur any expense or make any payments under the grant. Remaining commitments under the grant are $11,400,000 as of June 30, 2013.

In May 2012, the Center's Board of Director awarded $500,000 in a Small Business Matching grant to one life sciences company in Massachusetts. To qualify for the program, companies must have received a Phase II or Post Phase II small business innovation research ("SBIR") or small business technology transfer ("STTR") grant from federal agencies such as the National Institutes of Health ("NIH"), National Science Foundation ("NSF"), or Department of Defense ("DOD"). The Center did not offer the program in fiscal year 2013. The Center did recover $39,991 from a prior awardee under the program in fiscal year 2013. For the year ended June 30, 2012 the Center expensed $500,000. There no remaining commitments under the grant as of June 30, 2013.

7. GRANTS AND COMMITMENTS…continued

Capital Program Grants…continued

In September 2012 and May 2013, the Board of Directors voted to approve $95,000,000 for the construction and fit out of Life Sciences Laboratories at the University of Massachusetts in Amherst to create three unique translational science Centers for personalized health monitoring that will catalyze the precision manufacturing cluster in Western Massachusetts, protein homeostasis to reveal new drug targets for intractable diseases, and a bioactive delivery bridge that will integrate polymer, chemical, animal, food, and analytical sciences. For the year ended June 30, 2013, the Center expensed $308,000, of which none was paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. Remaining commitments under the grant are $95,000,000 as of June 30, 2013.

In December 2012, the Board of Directors voted to approve $3,228,203 for 31 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, 2013, the Center expensed $1,610,527, of which $1,370,767 was not paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. Remaining commitments under the grant are $2,988,443 as of June 30, 2013.

In January 2013, the Board of Directors voted to approve $27,684,761 to 7 awardees under the Center's FY13 Capital Project Matching Grant Program. These grants will be used to fund a variety of projects supporting the life sciences in the Commonwealth. The Board of Directors also voted to approve $910,000 to 7 awardees for planning grants related to future capital projects. For the year ended June 30, 2013 the Center expensed $2,731,482, of which none was paid as of June 30, 2013 and is included in grants payable and accrued grant expense on the statement of net position. Remaining commitments under the grants are $28,594,761 as of June 30, 2013.

In May 2013, the Board of Directors voted to approve $5,500,000 to Baystate Medical Center in Springfield for the creation of the Baystate Healthcare Informatics & Technology Innovation Center to incubate and accelerate healthcare technology start-ups and big vendor solutions reliant on validations against near real-time Big Data and an integrated delivery system environment. For the year ended June 30, 2013 the Center had no expense under the grant. Remaining commitments under the grant are $5,500,000 as of June 30, 2013.

In June 2013, the Board of Directors voted to approve $55,000 for a planning grant towards the design, construction and development for a life science incubator building at the William Stanley Business Park in the City of Pittsfield. This grant is the first installment of approximately $6,500,000 that has been allocated to the Pittsfield project in connection with the Life Sciences Statute. For the year ended June 30, 2013 the Center did not incur any expense or make any payments under the grant. Remaining commitments under the grants are $55,000 as of June 30, 2013.

Total remaining commitments for all capital program grants as of June 30, 2013 are $188,604,641, which is contingent upon the Commonwealth fulfilling their funding obligations to the Center.

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. The original 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, 2013 and 2012, deferred rent in the amount of $21,078 and $44,791, respectively, has been recorded. Rent expense under the operating lease was $159,743 for the year ended June 30, 2013 and $159,256 for the year ended June 30, 2012.

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

2014	$ 240,000
2015	263,000
2016	263,000
2017	263,000
2018	263,000
Thereafter	197,000
	$ 1,489,000

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 23, 2013.

In July 2013, the Center disbursed $984,500 to one of the December 2012 Accelerator loan program awardees.