Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth
of Massachusetts)

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

Years Ended June 30, 2015 and 2014

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(A Component Unit of the Commonwealth of Massachusetts)

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Years Ended June 30, 2015 and 2014

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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 business-type activities of the Massachusetts Life Sciences Center (the "Center"), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Life Sciences Center as of June 30, 2015 and 2014, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3–7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

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

McGladrey LLP

Boston, Massachusetts
September 25, 2015

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, 2015, 2014 and 2013. This unaudited management discussion and analysis should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

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

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

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

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

Using the Financial Statements

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

The statement of net position presents the financial position of the Center as of June 30, 2015 and 2014. It provides information about the nature and the amount of resources (assets), plus deferred outflows (as applicable), obligations (liabilities), plus deferred inflows (as applicable) and net position.

Using the Financial Statements…continued

The statement of revenues, expenses and changes in net position presents the changes in net position over the course of the years ended June 30, 2015 and 2014. The change in net position may be useful in assessing whether the financial position improved or deteriorated for the year.

The statement of cash flows presents the cash activities segregated by four major cash flow categories; operating activities, noncapital financing activities, capital and related financing activities and investing activities. This statement may be useful in determining the changes in liquidity and in understanding how cash and cash equivalents were used during the years ended June 30, 2015 and 2014.

Financial Highlights

Fiscal year 2015 is the seventh 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 sixth 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 $11.4M million in fiscal year 2015, $19.5 million in fiscal year 2014 and $15 million in fiscal year 2013.

In fiscal year 2015, the Board of Directors authorized $12.2 million in commitments as compared to $4.6 million in fiscal year 2014 and $6.4 million in fiscal year 2013. The commitments were for research grants, workforce development programs, and programs that support innovation in life sciences. The increase in fiscal year 2015 commitments from fiscal year 2014 is due to an increase in the number of programs offered in fiscal year 2015 and STEM related grants. The decrease in fiscal year 2014 commitments from fiscal year 2013 is due to one less program in fiscal year 2014 and one commitment that ended in fiscal year 2013. In fiscal year 2015, the Center incurred $6.9 million of grant expense compared to $4.4 million of grant expense in fiscal year 2014 and $4.4 million in fiscal year 2013. The $2.5 million increase of grant expense from fiscal year 2015 to 2014 is due to the addition of two new programs unveiled in fiscal year 2015: the Milestone Achievement Program and Universal Partnership program. The same level of grant expense from fiscal year 2014 to 2013 is due to a decrease in educational and workforce development expense and an increase in international programs. Remaining payment commitments as of June 30, 2015 on the outstanding grants are approximately $14.1 million.

In fiscal year 2015, the Board of Directors authorized up to $7 million for early stage company loans under the Life Sciences Accelerator Loan program for fiscal year 2016. The loan program provides working capital to early stage companies at a critical stage of development. From prior year authorizations, the Center awarded $4 million in fiscal year 2015 and $2.5 million in fiscal year 2014. Of the $4 million in investment funds awarded in fiscal year 2015, none have been disbursed as of June 30, 2015.

Capital Programs

The Capital Program was created by the Life Sciences Act and is for municipalities and institutions for buildings, equipment, upgrades to roads, sewer lines and other infrastructure that supports growth in the life sciences sector. The Life Sciences Act provides for $500 million to the Capital Program over 10 years. The Capital Program is funded by the Commonwealth of Massachusetts. In fiscal year 2015, the Center entered into 16 new commitments totaling $27 million. In fiscal year 2015, the Center incurred $74.8 million of grant expense compared to $47.7 million of grant expense in fiscal year 2014 and approximately $52.4 million in fiscal year 2013. The increase in fiscal year 2015 from 2014 is due to timing of new capital projects started in fiscal year 2015 and increasing expenditures for existing projects. The decrease in fiscal year 2014 from 2013 is due to payments for qualifying expenses relating to grants awarded in prior years together with new fiscal year 2014 projects and the delay of $11.4M of expense for one project.

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 2015, the Center made 44 grants under the program totaling nearly $3.8 million and incurring no expense in fiscal year 2015. In fiscal year 2014, the Center made 35 grants under the program totaling nearly $3.3 million incurring $3 million expense in fiscal year 2015. 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 in fiscal year 2014.

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 2015 or 2014. In fiscal year 2015, the Center recovered $109,444 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 on behalf of the DOR. The Center has the ability to award ten different tax incentives with a cumulative cap of $25 million per year for 10 years. The tax incentives have no financial impact on the Center. The Center awarded $19 million to 11 companies in fiscal year 2015, $24.4 million to 32 companies in fiscal year 2014 and $23 million to 24 companies in fiscal year 2013.

Investment Income

Investment income in fiscal year 2015 was $90,100 compared to $67,600 compared in fiscal year 2014 and $58,000 in fiscal year 2013. Investment income relates to interest earned throughout the fiscal year on the Center's cash and cash equivalent balance. The increase in fiscal year 2015 from fiscal year 2014 is due to higher balances. The increase in fiscal year 2014 from fiscal year 2013 is due to higher balances. The decrease in fiscal year 2013 from fiscal year 2012 is due to lower interest rates.

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 2015, the Center incurred approximately $3.5 million of administrative expenses and purchases of property and equipment. In fiscal year 2014 and 2013, the Center incurred approximately $3.2 million and $2.7 million of administrative expenses, respectively. The increase in expenditures in fiscal year 2015 from fiscal year 2014 is due to higher staffing costs related to new hires, communications programs and purchases of property and equipment. The increase in expenditures in fiscal year 2014 from fiscal year 2013 is due to higher staffing costs related to new hires, communications programs and purchases of property and equipment. The increase in expenditures in fiscal year 2013 from fiscal year 2012 is due to higher staffing costs related to new hires and communications programs. For the fiscal years ended June 30, 2015, June 30, 2014 and June 30, 2013, the headcount of the Center was nineteen, nineteen, and fourteen, respectively.

Liquidity of the Investment Fund

From inception through June 30, 2015, the Investment Fund has received appropriations from the Commonwealth of $115.9 million. In addition, the Center has earned investment income of approximately $2.3 million and collected approximately $8.1 million through loan repayments, sponsorship, insurance proceeds, and corporate consortium revenues for total inflows of approximately $126.3 million. The Center reserves all the funds required for a grant or loan commitment at the time of the Board of Directors' authorization. From inception through June 30, 2015, the Center has disbursed or reserved approximately $119.4 million resulting in approximately $6.9 million of available funds as of June 30, 2015.

Budgets and Appropriations

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

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth of Massachusetts)

Management's Discussion and Analysis (unaudited)
Years Ended June 30, 2015 and 2014

Financial Summary

The following summarizes the Statement of Net Position and Revenue, Expenses and Changes in Net Position for fiscal years 2015, 2014 and 2013.

Statement of Net Position	**June 30, 2015**	**June 30, 2014**	**June 30, 2013**
Assets			
Current assets	$ 91,926,541	$ 76,006,642	$ 61,263,866
Assets held on behalf of Neuroscience Consortium	872,177	1,891,305	1,750,143
Assets held in escrow	-	11,400,000	-
Noncurrent assets	5,912,333	5,058,350	4,024,924
Capital assets	69,939	74,535	32,916
Total assets	$ 98,780,990	$ 94,430,832	$ 67,071,849
Liabilities			
Current liabilities	$ 51,967,916	$ 36,474,679	$ 31,405,701
Noncurrent liabilities	997,177	13,416,305	1,771,221
Total liabilities	52,965,093	49,890,984	33,176,922
Net Position			
Net investment in capital assets	69,939	74,535	32,916
Unrestricted	45,745,958	44,465,313	33,862,011
Total net position	45,815,897	44,539,848	33,894,927
Total liabilities and net position	$ 98,780,990	$ 94,430,832	$ 67,071,849
Statements of Revenues, Expenses and Changes in Net Position			
Revenues and Expenses			
Operating revenues	$ 78,534,919	$ 50,147,640	$ 54,621,079
Operating expenses	(88,738,758)	(59,070,293)	(62,985,939)
Operating loss	(10,203,839)	(8,922,653)	(8,364,860)
Nonoperating revenues, net	90,119	67,574	58,209
Capital contributions, net	11,389,769	19,500,000	15,000,000
Increase in net position	$ 1,276,049	$ 10,644,921	$ 6,693,349

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Statements of Net Position

June 30, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 13,861,738**	$ 16,857,374
Accounts receivable	**251,749**	270,320
Grant reimbursement receivable from Commonwealth of Massachusetts	**46,462,821**	32,335,218
Loans receivable, net	**150,000**	-
Interest receivable, net	**70,999**	-
Assets held on behalf of Neuroscience Consortium	**872,177**	1,891,305
Assets held in escrow	**-**	11,400,000
Prepaid expenses and other current assets	**46,463**	57,654
Assets committed under programs and awards:		
Cash and cash equivalents	**31,082,771**	26,486,076
Total current assets	**92,798,718**	89,297,947
Non-current assets:		
Loans receivable, net	**4,928,250**	4,470,750
Interest receivable, net	**984,083**	587,600
Net property and equipment	**69,939**	74,535
Total noncurrent assets	**5,982,272**	5,132,885
Total assets	**$ 98,780,990**	$ 94,430,832
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	**$ 293,974**	$ 546,504
Grants payable and accrued grant expense	**51,673,942**	35,928,175
Total current liabilities	**51,967,916**	36,474,679
Noncurrent liabilities:		
Unearned revenue - Capital Program	**-**	11,400,000
Unearned revenue - Corporate Consortium	**125,000**	125,000
Agency obligation to the Neuroscience Consortium	**872,177**	1,891,305
Total liabilities	**997,177**	13,416,305
NET POSITION		
Net investment in capital assets	**69,939**	74,535
Unrestricted	**45,745,958**	44,465,313
Total net position	**45,815,897**	44,539,848
Total liabilities and net position	**$ 98,780,990**	$ 94,430,832

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, 2015 and 2014

		2015		2014
Operating income:				
Capital program revenues from Commonwealth of Massachusetts	**$**	**77,645,075**	$	49,314,049
Grant revenues		**163,490**		270,320
Sponsorship - Corporate Consortium		**258,868**		152,570
Interest income		**467,486**		410,701
Total operating income		**78,534,919**		50,147,640
Operating expenses:				
Grant expense		**84,507,384**		53,682,725
Salary and related employee expenses		**2,229,767**		1,960,143
Professional and consulting fees		**439,108**		291,116
Communications programs, sponsorships and contributions		**293,867**		313,406
General and administrative expenses		**505,064**		611,241
Loan loss reserve expense		**732,420**		2,179,750
Depreciation		**31,148**		31,912
Total operating expenses		**88,738,758**		59,070,293
Operating loss		**(10,203,839)**		(8,922,653)
Non-operating revenues:				
Investment income		**90,119**		67,574
Total nonoperating revenues		**90,119**		67,574
Loss before capital contributions		**(10,113,720)**		(8,855,079)
Contributions from the Commonwealth of Massachusetts		**11,389,769**		19,500,000
Increase in net position		**1,276,049**		10,644,921
Net position:				
Beginning of year		**44,539,848**		33,894,927
End of year	**$**	**45,815,897**	$	44,539,848

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth of Massachusetts)

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts for reimbursements from the Commonwealth	**$ 63,517,472**	$ 44,720,202
Payments for grants	**(68,871,061)**	(48,873,201)
Payments for assets held in escrow	**-**	(11,400,000)
Receipts for unearned revenues - Capital Program	**-**	11,400,000
Payments for salary and related employee expenses	**(2,246,480)**	(1,916,723)
Payments for professional consulting fees	**(564,608)**	(243,959)
Payments for general and administrative expenses	**(480,329)**	(551,441)
Payments for communication programs, sponsorships and contributions	**(419,688)**	(228,477)
Receipts for grant revenues	**184,023**	61,341
Receipts for loan interest income	**-**	417,285
Receipts for sponsorships	**258,868**	277,570
Receipts for refunded grants	**109,444**	-
Net cash used in operating activities	**(8,512,359)**	(6,337,403)
Cash flows from capital and related financing activities:		
Receipt of contributions from the Commonwealth of Massachusetts	**11,389,769**	19,500,000
Net cash provided by capital and related financing activities	**11,389,769**	19,500,000
Cash flows from investing activities:		
Purchase of property and equipment	**(26,550)**	(73,532)
Issuance of loans	**(1,500,000)**	(3,984,500)
Repayment of loans	**160,080**	1,500,000
Receipt of investment income	**90,119**	67,574
Net cash used in investing activities	**(1,276,351)**	(2,490,458)
Net increase in cash and cash equivalents	**1,601,059**	10,672,139
Cash and cash equivalents:		
Beginning of year	**43,343,450**	32,671,311
End of year	**$ 44,944,509**	$ 43,343,450
Reconciliation of cash flows from operating activities:		
Operating loss	**$ (10,203,839)**	$ (8,922,653)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	**31,148**	31,912
Loan loss reserve	**732,420**	2,179,750
Loan Interest reserve	**708,169**	834,349
Changes in assets and liabilities:		
Accounts receivable	**18,571**	(208,414)
Grant reimbursement from Commonwealth	**(14,127,603)**	(4,593,847)
Interest receivable	**(1,175,653)**	(827,765)
Prepaid expenses and other current assets	**11,191**	(3,635)
Accounts payable and accrued expenses	**(252,530)**	259,454
Grants payable and accrued grant expense	**15,745,767**	4,809,524
Unearned revenues - Corporate Consortium	**-**	125,000
Unearned rent	**-**	(21,078)
Total adjustments	**1,691,480**	2,585,250
Net cash used in operating activities	**$ (8,512,359)**	$ (6,337,403)

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

Massachusetts Life Sciences Center

1. ORGANIZATION

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

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

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

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

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

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

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 ("GAAP"), as prescribed by GASB codification section 2100, which establishes standards for defining and reporting on the financial reporting entity.

The GASB defines the basic financial statements of a business type activity as the: statement of net position, statement of revenues, expenses and changes in net position, and the statement of cash flows. The statement of net position is presented to illustrate both the current and noncurrent balances of each asset and liability. All revenues and expenses are classified as either operating or non-operating activities in the statement of revenues, expenses and changes in net position. Operating activities are those that support the mission and purpose of the Center. Nonoperating activities represent transactions that are capital, investing, legislative or regulated in nature.

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

Net Investment in Capital Assets

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. For fiscal year 2015 and 2014 there were no deferred outflows or inflows of resources.

Restricted

Restricted net position represents the portion of net position subject to externally imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. At June 30, 2015 and 2014, the Center does not maintain any restricted net position.

Unrestricted

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

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Under the accrual basis, revenue is recognized when earned and expenses are recognized when obligations are incurred or when benefits are received.

Use of Estimates

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

Cash and Cash Equivalents

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

Cash and Cash Equivalents or Reserved for Awards and Programs

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

Assets Held in Escrow

Assets held in escrow relate to monies held in escrow by a third party in connection with the payment obligations of the Center under a grant agreement.

Revenue Recognition

Investment income is recognized as earned. Sponsorship revenues represent fees collected from companies for providing tradeshow booths and other space at industry trade shows. Sponsorship revenues are recognized when earned upon occurrence of the event. Consortium revenues are fees paid by corporations to sponsor and participate in the Center's small business matching grant and accelerator loan programs. Fees are for a specific time period and, accordingly, revenues are recognized over the specified time period.

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

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

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

Massachusetts Life Sciences Center

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

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, 2015, $22,691,196 of loans receivable has been authorized and $18,691,500 has been disbursed. During fiscal year 2015, the Center funded $1,500,000 in new loans and one borrower partially repaid their loan with a repayment of principal of $160,000. As of June 30, 2014, $18,691,500 of loans receivable had been authorized and $17,191,500 had been disbursed. During fiscal year 2014, the Center funded $3,984,500 million in new loans and two borrowers repaid their loans in full with a combined repayment of principal of $1,500,000. 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, 2015, $12,556,420 of loans receivable are outstanding and $7,478,170 has been reserved for losses, resulting in net loans receivable of $5,078,250. As of June 30, 2014, $11,216,500 of loans receivable were outstanding and $6,745,750 had been reserved for losses, resulting in net loans receivable of $4,470,750. The Center had no write-offs or recoveries in fiscal year 2015 or 2014.

As of June 30, 2015, the gross interest receivable balance was $3,377,584. As of June 30, 2014, the gross interest receivable balance was $ 2,201,932. 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, 2015, $2,322,502 has been reserved resulting in net interest receivable of $1,055,082. As of June 30, 2014, $1,614,332 had been reserved resulting in net interest receivable of $587,600. Interest is due at the end of the loan term or upon repayment of the loan due to a qualified financing of these companies of greater than $5,000,000.

Property and Equipment, Net

Property, equipment, and leasehold improvements with a value greater than $500 are all stated at cost. Depreciation is recorded over the estimated useful lives of the assets by the straight line method. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense totaled $31,148 and $31,912 for the years ended June 30, 2015 and 2014, 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

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

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 $84,507,384 and $53,682,725 for fiscal year 2015 and 2014, respectively. As of June 30, 2015 and 2014, $51,673,942 and $35,928,175, 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 under a special funding situation where the Commonwealth of Massachusetts is a non-employer contributor under GASB Statement 68 or the statutorily prescribed optional defined contribution plan provided by the Center. The Center makes no contributions for employees participating in the Commonwealth of Massachusetts State Retirement systems' pension plan. In fiscal year 2010, as provided by the 2008 Statute, the Center established the optional defined contribution pension plan. The Center annually contributes an amount equal to 12% (5% statutorily mandated) of an employee's annual gross salary less the cost of life and disability insurance. Total optional defined contribution expense by the Center for the years ended June 30, 2015 and 2014 was $167,967 and $134,257, 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.

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 2015, the Consortium received $500,000 plus interest from membership contributions to date held within the segregated bank account of the Center. In fiscal year 2014, the Consortium received $1,000,000 plus interest from membership contributions plus interest from membership contributions to date held within the segregated bank account of the Center. The Consortium issued payments in the amount of $1,522,008 during fiscal year 2015. The asset and corresponding liability balances of the Consortium are included in the financial statements of the Center as of June 30, 2015 and 2014. If the Consortium was to terminate, all remaining funds would be due back to the contributing members on a pro-rata basis.

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

Recent Accounting Pronouncements

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. 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. 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. The adoption of this standard did not have a significant impact on the Center's 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. The adoption of this standard did not have a significant impact on the Center's 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. The adoption of this standard did not have a significant impact on the Center's financial statements.

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

Recent Accounting Pronouncements…continued

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. The adoption of this standard did not have a significant impact on the Center's financial statements.

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. The adoption of this standard did not have a significant impact on the Center's financial statements.

In November 2013, the GASB issued GASB No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68)*. This Statement amends Statement 68 related to transition provisions for certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and nonemployer contributing entities. At the beginning of the period in which the provisions of Statement 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68. The provisions of this standard are effective for reporting periods beginning after June 15, 2014. The adoption of this standard did not have a significant impact on the Center's financial statements.

In February 2015, GASB issued GASB Statement No. 72, Fair Value Measurement and Application, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.

2. SIGNIFICANT ACCOUNTING PRINCIPLES…continued

Recent Accounting Pronouncements…continued

Under Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash.

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

In June 2015, GASB issued GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, completes the suite of pension standards. Statement 73 establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The provisions of this standard are effective for reporting periods beginning after June 15, 2015. The implications on the fiscal practices and financial reports are being evaluated.

In June 2015, GASB issued GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, replaces GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The provisions of this standard are effective for reporting periods beginning after June 15, 2016. The implications on the fiscal practices and financial reports are being evaluated.

In June 2015, GASB issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Among other things, Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The provisions of this standard are effective for reporting periods beginning after June 15, 2016. The implications on the fiscal practices and financial reports are being evaluated.

2. **SIGNIFICANT ACCOUNTING PRINCIPLES**…continued

Recent Accounting Pronouncements…continued

In June 2015, GASB issued GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this standard are effective for reporting periods beginning after June 15, 2015. The implications on the fiscal practices and financial reports are being evaluated.

In August 2015, GASB issued GASB Statement No. 77, Tax Abatement Disclosures, requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government’s tax revenues. The provisions of this standard are effective for reporting periods beginning after June 15, 2016. The implications on the fiscal practices and financial reports are being evaluated.

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 of Directors may determine. During fiscal year 2015 and 2014, these assets were majority allocated to short-term investments/money market accounts which qualify as cash equivalents and are carried at amortized cost.

4. CASH AND CASH EQUIVALENTS…continued

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, 2015, bank deposits were $10,151,738 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, 2015 The Center's deposits with MMDT totaled $34,792,771. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

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

	2015	2014
Cash deposits	$ 10,151,738	$ 6,624,942
Massachusetts Municipal Depository Trust ("MMDT") Cash Portfolio	34,792,771	36,718,508
	$ 44,944,509	$ 43,343,450

5. PROPERTY AND EQUIPMENT, NET

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

	2015	2014
Computer equipment	$ 126,934	$ 119,400
Office furniture	178,819	178,819
Leasehold improvements	103,157	100,596
	408,910	398,815
Accumulated depreciation	(338,971)	(324,280)
Property and equipment, net	$ 69,939	$ 74,535

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of June 30, 2015 and 2014, accounts payable and accrued expenses totaled $293,974 and $546,504, 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, 2015, the Center incurred no expense under the grants. For the year ended June 30, 2014, the Center expensed $193,516. As of June 30, 2015, there are no remaining commitments under the program.

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, 2015, the Center expensed $77,508 of which $77,508 is not paid and is included in grants payable and accrued grant expense on the statement of net position. The Center also reversed $16,294 of expense due to actual expense less than an estimate provided by an awardee from a previous fiscal year. For the year ended June 30, 2014, the Center reversed $22,718 of expense due to actual expense less than an estimate provided by an awardee from the previous fiscal year.

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. As of June 30, 2015, there are no remaining commitments under the program.

In April 2011, the Board of Directors voted to approve $1,000,000 for two cooperative research grants. For the year ended June 30, 2015, the Center expensed and paid $257,548. For the year ended June 30, 2014, the Center expensed $311,262. As of June 30, 2015, there are no remaining commitments under the program.

In June 2013, the Board of Directors voted to approve $2,000,000 for four cooperative research grants. For the year ended June 30, 2015, the Center expensed $1,091,439, of which $425,731 was not paid as of June 30, 2015 and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2014, the Center expensed $650,812. Remaining commitments under the authorized grants are $683,481 as of June 30, 2015.

In June 2015, the Board of Directors voted to approve $1,990,380 for six cooperative research grants. For the year ended June 30, 2015, the Center expensed no dollars. Remaining commitments under the authorized grants are $1,990,380 as of June 30, 2015.

7. GRANTS AND COMMITMENTS…continued

Investment Fund…continued

In December 2014, the Board of Directors authorized $3,000,000 for the 2015 Internship Challenge Program which is a year round program. For the year ended June 30, 2015, the Center expensed $765,320 for the program, of which $752,454 was not paid as of June 30, 2015 and is included in grants payable and accrued grant expense on the statement of net position. In December 2013, the Board of Directors authorized $3,000,000 for the 2014 Internship Challenge Program. For the year ended June 30, 2015, the Center expensed $1,882,834 for the program, and $303,037 is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2014, the Center expensed $723,926. In December 2012, the Board of Directors authorized $3,200,000 for the 2013 Internship Challenge Program. For the 2013 program, the Center reversed $75,580 of expense in fiscal year 2015 due to an over accrual in fiscal year 2014. For the year ended June 30, 2014, the Center expensed $1,751,828.

In December 2011, the Board of Directors authorized $3,200,000 for the 2012 Internship Challenge Program. For the 2012 program, the Center reversed $14,400 of expense in fiscal year 2014 due to an over accrual in fiscal year 2013. Remaining payments under all authorized Internship Challenge Programs are $3,683,412.

In May 2015, the Board of Directors voted to approve 12 awards totaling $2,242,335 in grant funding for the Milestone Achievement Program (“MAP”) to enable early stage companies in achieving critical, value creating milestones. For the year ended June 30, 2015, the Center expensed $1,054,520. Remaining commitments under the grants are $1,687,816 as of June 30, 2015.

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, 2015 and June 30, 2014 the Center had $1,005,844 and $1,048,228 of active discretionary grants, respectively. In fiscal year 2015 the Center expensed $453,648 of which $221,257 was unpaid as of June 30, 2015 and is included in grants payable and accrued grant expense on the statement of net position as of June 30, 2015. In fiscal year 2014 the Center expensed $501,342. Remaining commitments under the authorized grants are $391,155 as of June 30, 2015.

7. GRANTS AND COMMITMENTS…continued

Other Grants…continued

In May of 2012, the Center made one award of $300,000 to the Massachusetts Eye and Ear Infirmary under the Northern Ireland Massachusetts Connection Program, which has a goal of creating biotech research and business collaborations between Massachusetts, Northern Ireland and Europe. In fiscal year 2012, the Board of Directors authorized two awards for $300,000 under the Massachusetts Israeli Innovation Partnership Program to foster international collaboration on early-stage life sciences projects. One of the awards will not be funded due to the awardee's inability to comply with requirements of the program. In fiscal year 2013, the Board of Directors authorized two awards totaling $450,170 under the second round of the Massachusetts Israeli Innovation Partnership Program. In February of 2014, the Board of Directors authorized four awards for $1,059,750 under the International Collaborative Industry Program. In February 2015, the Board of Directors authorized four awards for $1,600,000 under the second round of the International Collaborative Industry Program. During fiscal year 2015, the Board of Directors authorized seven awards totaling $1,363,400 under the Universal Partnership Program which provides grants to Massachusetts companies to support collaboration on R&D with a non-U.S. organization. In September 2014, the Board of Directors authorized $550,000 to Center for the Advancement of Science in Space ("CASIS") for administering a program to permit Massachusetts companies and schools to perform scientific experiments on the International Space Station. In December 2014, the Board of Directors authorized an award of $1,000,000 to Diagnostics for All focusing on developing rapid Ebola diagnostic testing kits. The Center expensed $1,371,366 related to the above programs, of which $911,492 was unpaid and is included in grants payable and accrued grant expense on the statement of net position as of June 30, 2015. For the year ended June 30, 2014 the Center expensed $302,227. Remaining commitments under the authorized grants are $5,088,384 as of June 30, 2015.

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. In fiscal year 2014 the Center expensed $10,719 of which all was paid as of June 30, 2014. As of June 30, 2015, there are no remaining commitments under the program.

Total remaining commitments for all Investment Fund grants as of June 30, 2015 are $14,064,435.

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements
Years Ended June 30, 2015 and 2014

7. GRANTS AND COMMITMENTS…continued

Capital Program Grants

The following table summarizes active grants in fiscal year 2014 and/or 2015 under the Capital Program:

Awardee	Location	Award Amount	Expensed FY15	Expensed FY14	Expensed Prior to FY14	Amount in Grants Payable Accrued Grant Expense as of June 30, 2015	Remaining payments as of June 30, 2015
Bay Path University	Longmeadow	$ 500,000	$ -	$ -	$ -	$ -	$ 500,000
Baystate Medical	Springfield	5,500,000	2,863,264	2,178,804	-	1,370,776	1,828,708
Berkshire Community College	Pittsfield	500,000	-	-	-	-	500,000
Boston Children's Hospital	Boston	2,263,133	-	-	-	-	2,263,133
Brigham & Women's Hospital/Forsyth Institute	Boston	4,813,766	-	-	-	-	4,813,766
BU Medical School	Boston	1,743,648	-	-	-	-	1,743,648
BU: Biomedical Lab and Clinical Sciences Program	Boston	180,000	-	-	-	-	180,000
BU: Business Innovation Center	Boston	363,750	-	-	-	-	363,750
Children's Hospital	Boston	4,014,031	510,233	2,814,325	689,473	-	-
City of Pittsfield	Pittsfield	9,725,000	460,761	55,000	-	267,808	9,477,047
City of Taunton	Taunton	55,000	32,450	-	-	32,450	55,000
Dana-Farber Cancer Institute	Boston	10,000,000	-	7,545,546	2,454,454	-	-
Framingham State University	Framingham	3,000,000	3,000,000	-	-	3,000,000	3,000,000
FY14 College Planning/Equip	Various	811,135	83,336	727,799	-	68,336	68,336
FY15 College Planning/Equip	Various	2,491,464	1,753,252	-	-	999,203	1,737,415
Harvard Medical School	Cambridge	5,000,000	1,049,921	3,037,025	212,975	135,028	835,107
Holyoke Community College	Holyoke	3,800,000	3,000,000	-	-	-	800,000
Holyoke Community College	Holyoke	300,000	-	-	-	-	300,000
Just-A-Start Corporation	Cambridge	49,992	-	-	-	-	49,992
Lab Central	Cambridge	5,000,000	-	-	-	-	5,000,000
LabCentral	Cambridge	4,955,515	-	4,139,375	816,140	-	-
North Shore Biotech Consortium	See Note	5,000,000	4,243,131	-	-	3,206,038	3,962,907
M.I.T.	Cambridge	1,838,000	83,041	-	-	83,041	1,838,000
MA Green High Performing Computing Center	Holyoke	4,540,000	1,553,116	1,863,961	-	1,491,042	2,613,965
Univ. of Mass/ Medical School - MassBiologics	Boston	5,000,000	3,189,961	-	-	3,189,961	5,000,000
Middlesex Community College	Bedford/Lowell	3,000,000	-	-	-	-	3,000,000
New Bedford Economic Development Council	New Bedford	75,000	55,000	20,000	-	-	-
Northern Essex Community College	Haverhill/Lawrence	1,242,000	816,830	401,134	9,747	158,362	172,651
Quinsigamond Community College	Worcester	5,000,000	-	-	-	-	5,000,000
Regis College	Weston	355,000	-	-	-	-	355,000
Roxbury Community College	Roxbury Crossing	3,000,000	-	-	-	-	3,000,000
Springfield Technical Community College	Springfield	1,000,000	-	-	-	-	1,000,000
The Forsyth Institute	Boston	4,133,215	923,264	2,206,805	1,003,146	594,218	594,218
Univ. of Mass/ Amherst	Amherst	95,000,000	28,767,103	11,619,681	308,000	22,367,579	76,672,795
Univ. of Mass/ Boston Venture Development Center	Boston	588,848	310,155	-	-	-	278,693
Univ. of Mass/ Boston-DF/HCC	Boston	10,000,000	842,903	1,595,834	232,910	842,903	8,171,256
Univ. of Mass/ Dartmouth - ATMC	Fall River	11,400,000	11,400,000	-	-	-	-
Univ. of Mass/ Dartmouth - MAB	Fall River	20,600,000	-	5,815,537	14,784,463	-	-
Univ. of Mass/ Lowell - ETIC	Lowell	10,000,000	2,018,642	3,431,448	4,549,910	2,018,642	2,018,642
Univ. of Mass/ Lowell - Innovation Hub	Lowell	5,046,697	4,251,573	-	-	4,251,573	5,046,697
Univ. of Mass/ Medical School	Boston	5,000,000	3,484,300	-	-	3,484,300	5,000,000
Venture Café	Boston	347,000	62,325	145,144	-	1,008	140,539
Wellesley College	Wellesley	50,000	-	-	-	-	50,000
Worcester Polytechnic Institute	Worcester	5,149,999	-	114,300	5,035,699	-	-
		$ 262,432,193	$ 74,754,561	$ 47,711,718	$ 30,096,917	$ 47,562,268	$ 157,431,265

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

STEM Equipment and Supplies

Year	Location						
FY13 Program	Various	$ 3,212,860	$ -	$ 1,602,333	$ 1,610,527	$ -	$ -
FY14 Program	Various	3,272,862	2,999,956	-	-	920,194	1,193,100
FY15 Program	Various	3,774,535	-	-	-	-	3,774,535
		$ 10,260,257	$ 2,999,956	$ 1,602,333	$ 1,610,527	$ 920,194	$ 4,967,635

7. GRANTS AND COMMITMENTS…continued

Other Capital Programs

In May 2012, the Center's Board of Directors awarded $500,000 in a Small Business Matching grant to one life sciences company in Massachusetts. To qualify for the program, companies must have received a Phase II or Post Phase II small business innovation research ("SBIR") or small business technology transfer ("STTR") grant from federal agencies such as the National Institutes of Health ("NIH"), National Science Foundation ("NSF"), or Department of Defense ("DOD"). The Center did not offer the program in fiscal year 2013. For the year ended June 30, 2015, the Center did not incur any expense under the program. The Center did recover $109,444 from a prior awardee under the program in fiscal year 2015. There no remaining commitments under the program as of June 30, 2015.

Total remaining commitments for all capital program grants as of June 30, 2015 are $162,398,900 which is contingent upon the Commonwealth fulfilling their funding obligations to the Center.

Facility Lease

In December 2008, the Center entered into a 5 year noncancelable operating lease through March 2014 for its facilities in Waltham, Massachusetts. In June 2013, the Center renewed its lease with expansion space to be occupied in October 2013. The renewed lease is through March 2019. Rent expense under the operating lease was $263,175 for the year ended June 30, 2015 and $216,051 for the year ended June 30, 2014.

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

2016	$ 263,000
2017	263,000
2018	263,000
2019	197,000
	$ 986,000

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 25, 2015.

In August 2015, the Center disbursed $1,000,000 to a May 2015 Accelerator loan program awardee.

McGladrey

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Massachusetts Life Sciences Center (the "Center"), a component unit of the Commonwealth of Massachusetts as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Center's basic financial statements, and have issued our report thereon dated September 25, 2015.

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

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

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

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

Purpose of this Report

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

McGladrey LLP

Boston, Massachusetts
September 25, 2015