

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth
of Massachusetts)

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

June 30, 2018 and 2017

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RSM US LLP

Independent Auditor's Report

To the Board of Directors of the
Massachusetts Life Sciences Center

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Massachusetts Life Sciences Center (the "Center"), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2018 and 2017, 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 ("GAAP"); 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 ("GAAS") 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 qualified audit opinion.

Basis for Qualified Opinion

The Center has loan agreements within the Life Sciences Investment Fund, established under Section 24 of Massachusetts General Laws Chapter 123 of the Acts of 2006. Certain of those loan agreements include warrants that qualify as reportable derivative instruments under Statement No. 53 of the Governmental Accounting Standards Board (“GASB”), *Accounting and Financial Reporting for Derivative Instruments*. We were unable to obtain sufficient appropriate audit evidence as it relates to the fair value of the warrants held by the Center as of June 30, 2018 and 2017, as financial information to support valuation was not readily available. Consequently, the Center has not recognized or disclosed any values associated with these unexercised warrants as the financial effects of recognizing and disclosing such information are not reasonably estimable. In our opinion, recognition and disclosure of this information is required by GAAP.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Center, as of June 30, 2018 and 2017, and the respective changes in the financial position and cash flows for the years then ended in accordance with GAAP.

Other Matters

Required Supplementary Information

GAAP requires 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 GASB 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 GAAS, 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 a report dated September 26, 2018, 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 solely 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 the effectiveness of the Center’s internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center’s internal control over financial reporting and compliance.

RSM US LLP

Boston, Massachusetts
September 26, 2018

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

Management's Discussion and Analysis (unaudited)

As the management 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, 2018, 2017 and 2016. 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 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.

On June 15, 2018, Governor Charlie Baker signed Chapter 112 of the Acts of 2018, *An Act Providing Continued Investment in the Life Sciences Industry in the Commonwealth* to further invest up to \$623 million in bond authorization and tax credits over five years in education, research and development, and workforce training. The reauthorization funding will continue to be managed by the Center.

The Center is governed by a seven member Board of Directors (the "Board") consisting of: the Secretary of Administration and Finance or her/his designee; the Secretary of Housing and Economic Development or her/his designee; the president of the University of Massachusetts or her/his 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 and 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 statements of net position present the financial position of the Center as of June 30, 2018 and 2017. It provides information about the nature and the amount of resources (assets), plus deferred outflows (as applicable), obligations (liabilities), plus deferred inflows (as applicable) and net position.

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Management's Discussion and Analysis (unaudited)

The statements of revenues, expenses and changes in net position present the changes in net position over the course of the years ended June 30, 2018 and 2017. The change in net position may be useful in assessing whether the financial position improved or deteriorated for the year.

The statements of cash flows present 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, 2018 and 2017.

Financial highlights: Fiscal year 2018 is the tenth 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 Program and a ninth 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.

In fiscal year 2018, the Center incurred \$6.6 million of grant expense through the Investment Fund compared to \$5.6 million of grant expense in fiscal year 2017 and \$6.7 million in fiscal year 2016. The expenses were for research grants, workforce development programs, and programs that support innovation in life sciences. The \$1 million increase of grant expense from fiscal year 2018 to 2017 is due to timing of awards as well as new programs. The \$1.1 million decrease of grant expense from fiscal year 2017 to 2016 is due to fewer programs. Remaining payment commitments as of June 30, 2018 on the outstanding grants are approximately \$7.2 million.

Capital Program: The Capital Program was created by the *Life Sciences Act* and is for municipalities and nonprofit institutions to construct, renovate buildings, purchase 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 and an additional \$473 million was provided by the reauthorization. The Capital Program is funded by the Commonwealth. In fiscal year 2018, the Center incurred \$29.1 million of grant expense in the Capital Program compared to \$48.4 million of grant expense in fiscal year 2017 and \$50.2 million in fiscal year 2016. The decrease in fiscal year 2018 from 2017 is due to a decrease in payments for qualifying expenses relating to grants awarded and fewer programs. The decrease in fiscal year 2017 from 2016 is due to a decrease in payments for qualifying expenses relating to grants awarded.

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 2018, the Center incurred \$1.4 million of expense. The Center incurred \$2.6 million and \$3.8 million of expense in fiscal years 2017 and 2016 respectively.

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 \$25.0 million per year for 10 years. The reauthorization increased the annual cap to \$30 million for the next five years. The tax incentives have no financial impact on the Center. The Center awarded \$19.9 million to 23 companies in fiscal year 2018, \$19.9 million to 22 companies in fiscal year 2017 and \$20.9 million to 28 companies in fiscal year 2016.

Investment income: Investment income in fiscal year 2018 was \$496,283 compared to \$297,148 in fiscal year 2017 and \$170,495 in fiscal year 2016. Investment income relates primarily to interest earned throughout the fiscal year on the Center's cash and cash equivalent balance. The year over year increases are due to higher average balances and interest rates.

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Management's Discussion and Analysis (unaudited)

Administrative expenses and investments in property and equipment: In accordance with the Life Sciences Act, administrative expenses and purchases of property and equipment are provided by the Investment Fund. In fiscal year 2018, the Center incurred \$3.1 million of administrative expenses and purchases of property and equipment. In fiscal year 2017 and 2016, the Center incurred approximately \$3.4 million and \$2.9 million of administrative expenses, respectively. The decrease in expenditures in fiscal year 2018 from fiscal year 2017 is primarily due to open positions during the fiscal year. The increase in expenditures in fiscal year 2017 from fiscal year 2016 is due to increased staffing costs, communication programs and purchases of equipment and software services. For the fiscal years ended June 30, 2018, June 30, 2017 and June 30, 2016, the headcount of the Center at the end of the fiscal year was eighteen, fifteen and eighteen, respectively.

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 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.

Financial summary: The following summarizes the Statement of Net Position and Revenue, Expenses and Changes in Net Position for fiscal years 2018, 2017 and 2016.

Statement of Net Position	June 30, 2018	June 30, 2017	June 30, 2016
Assets			
Current assets:			
Current assets	\$ 42,929,336	\$ 80,756,645	\$ 69,219,571
Assets held on behalf of Neuroscience Consortium	1,079,956	1,576,089	773,873
Noncurrent assets	2,084,107	3,848,268	6,483,777
Capital assets	39,501	42,162	40,234
Total assets	<u>\$ 46,132,900</u>	<u>\$ 86,223,164</u>	<u>\$ 76,517,455</u>
Liabilities			
Current liabilities	\$ 12,930,167	\$ 46,091,475	\$ 30,877,582
Noncurrent liabilities	1,224,956	1,576,089	773,873
Total liabilities	<u>14,155,123</u>	<u>47,667,564</u>	<u>31,651,455</u>
Net Position			
Net investment in capital assets	39,501	42,162	40,234
Unrestricted	31,938,276	38,513,438	44,825,766
Total net position	<u>31,977,777</u>	<u>38,555,600</u>	<u>44,866,000</u>
Total liabilities and net position	<u>\$ 46,132,900</u>	<u>\$ 86,223,164</u>	<u>\$ 76,517,455</u>
Statements of Revenues, Expenses and Changes in Net Position			
Revenues and Expenses			
Operating revenues	\$ 31,823,429	\$ 52,396,514	\$ 54,764,313
Operating expenses	(38,897,535)	(59,004,062)	(65,884,705)
Operating loss	<u>(7,074,106)</u>	<u>(6,607,548)</u>	<u>(11,120,392)</u>
Nonoperating revenues	496,283	297,148	170,495
Capital contributions	-	-	10,000,000
Decrease in net position	<u>\$ (6,577,823)</u>	<u>\$ (6,310,400)</u>	<u>\$ (949,897)</u>

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Management's Discussion and Analysis (unaudited)

The Center's net position decreased approximately \$6.6 million (17%), \$6.3 million (14%), and \$0.9 million (2%) for the fiscal years ending June 30, 2018, 2017, and 2016 respectively. The changes in net position are primarily due to the Center's operating expenses exceeding operating revenues offset by capital contributions appropriated from the legislature for the Center's Investment Fund. There were no appropriations from the legislature during fiscal year 2018 and 2017. The Center received \$10.0 million in fiscal year 2016. The Center ended the year with total net position of approximately \$32.0 million as of June 30, 2018, \$38.6 million as of June 30, 2017 and \$44.9 million as of June 30, 2016.

Liquidity of the Investment Fund: From inception through June 30, 2018, the Investment Fund has received appropriations from the Commonwealth of \$125.9 million. In addition, the Center has earned investment income of \$3.2 million and collected \$19.1 million through loan repayments, sponsorship, insurance proceeds, and corporate consortium revenues for total inflows of \$148.2 million. The Center reserves all the funds required for a grant or loan commitment at the time of the Board's authorization. From inception through June 30, 2018, the Center has disbursed or reserved \$133.3 million resulting in \$14.9 million of available funds as of June 30, 2018.

Requests for information: To obtain further information regarding current and future programs, prior year financials, and contact information for the Center's employees, please refer to our website at: www.masslifesciences.com.

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Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,925,762	\$ 12,953,117
Accounts receivable	236	4,558
Grant reimbursement receivable from Commonwealth of Massachusetts	10,250,257	37,418,560
Loans receivable, net	400,460	656,250
Interest receivable, net	249,720	325,907
Assets held on behalf of Neuroscience Consortium	1,079,956	1,576,089
Prepaid expenses and other current assets	110,436	63,646
Assets committed under programs and awards:		
Cash and cash equivalents	16,992,465	29,334,607
Total current assets	44,009,292	82,332,734
Non-current assets:		
Loans receivable, net	1,575,593	3,080,067
Interest receivable, net	508,514	768,201
Net property and equipment	39,501	42,162
Total noncurrent assets	2,123,608	3,890,430
Total assets	\$ 46,132,900	\$ 86,223,164
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 369,775	\$ 440,058
Grants payable and accrued grant expense	12,560,392	45,651,417
Total current liabilities	12,930,167	46,091,475
Noncurrent liabilities:		
Unearned Revenue	145,000	-
Agency obligation to the Neuroscience Consortium	1,079,956	1,576,089
Total noncurrent liabilities	1,224,956	1,576,089
Total liabilities	14,155,123	47,667,564
Net Position		
Net investment in capital assets	39,501	42,162
Unrestricted	31,938,276	38,513,438
Total net position	31,977,777	38,555,600
Total liabilities and net position	\$ 46,132,900	\$ 86,223,164

See notes to financial statements.

Massachusetts Life Sciences Center
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Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating income:		
Capital program revenues from Commonwealth of Massachusetts	\$ 30,522,129	\$ 51,016,512
Grant revenues	30,000	26,182
Sponsorship	4,490	10,140
Interest income	1,266,810	1,343,680
Total operating income	31,823,429	52,396,514
Operating expenses:		
Grant expense	37,098,417	56,643,681
Salary and related employee expenses	1,949,080	2,276,216
Professional and consulting fees	399,357	307,640
Communications programs, sponsorships and contributions	285,606	242,812
General and administrative expenses	446,615	531,838
Loan loss reserve recovery	(1,306,947)	(1,026,107)
Depreciation	25,407	27,982
Total operating expenses	38,897,535	59,004,062
Operating loss	(7,074,106)	(6,607,548)
Non-operating revenues:		
Investment income	496,283	297,148
Total nonoperating revenues	496,283	297,148
Decrease in net position	(6,577,823)	(6,310,400)
Net position:		
Beginning of year	38,555,600	44,866,000
End of year	\$ 31,977,777	\$ 38,555,600

See notes to financial statements.

**Massachusetts Life Sciences Center
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**Statements of Cash Flows
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash flows from operating activities:		
Receipts for reimbursements from the Commonwealth	\$ 57,690,432	\$ 41,754,153
Payments for grants	(70,067,743)	(41,402,159)
Payments for salary and related employee expenses	(1,955,629)	(2,315,855)
Payments for professional consulting fees	(399,357)	(307,640)
Payments for general and administrative expenses	(678,687)	(529,974)
Payments for communication programs, sponsorships and contributions	(285,606)	(242,812)
Receipts for grant revenues	175,000	218,394
Receipts for loan interest income	1,624,010	1,599,931
Receipts for sponsorships	4,490	10,140
Net cash used in operating activities	(13,893,090)	(1,215,822)
Cash flows from investing activities:		
Purchase of property and equipment	(22,746)	(29,910)
Issuance of loans	-	(750,000)
Repayment of loans	3,050,056	3,464,388
Receipt of investment income	496,283	297,148
Net cash provided by investing activities	3,523,593	2,981,626
Net (decrease) increase in cash and cash equivalents	(10,369,497)	1,765,804
Cash and cash equivalents:		
Beginning of year	42,287,724	40,521,920
End of year	\$ 31,918,227	\$ 42,287,724
Reconciliation of cash flows from operating activities:		
Operating loss	\$ (7,074,106)	\$ (6,607,548)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	25,407	27,982
Loan loss reserve	(1,306,947)	(1,026,107)
Loan interest reserve	67,928	341,087
Changes in assets and liabilities:		
Accounts receivable	4,322	188,599
Grant reimbursement from Commonwealth	27,168,303	(9,262,359)
Interest receivable	285,101	(75,720)
Prepaid expenses and other current assets	(46,790)	(15,649)
Accounts payable and accrued expenses	(70,283)	(27,629)
Grants payable and accrued grant expense	(33,091,025)	15,241,522
Unearned revenues - Corporate Consortium	145,000	-
Total adjustments	(6,818,984)	5,391,726
Net cash used in operating activities	\$ (13,893,090)	\$ (1,215,822)

See notes to financial statements.

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 1. Organization

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

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

The Investment Fund is to be used in making appropriations, allocations, grants or loans to leverage development and investments in life sciences in the Commonwealth. 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”).

On June 15, 2018, Governor Charlie Baker signed Chapter 112 of the Acts of 2018, *An Act Providing Continued Investment in the Life Sciences Industry in the Commonwealth* to further invest up to \$623 million in bond authorization and tax credits over five years in education, research and development, and workforce training. The reauthorization funding will continue to be managed by the Center.

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

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

Note 2. Significant Accounting Policies

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.

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Notes to Financial Statements

Note 2. Significant Accounting Policies (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, 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 years 2018 and 2017 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, 2018 and 2017, 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 the Board 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 Investment Fund (Investment and Capital Program) for the fiscal year for administrative expenditures and property and equipment.

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

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

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

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Cash and cash equivalents committed under 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.

Investments: Pursuant to GASB 79, *Certain External Investment Pools and Pool Participants*, the Center's investments represent a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenues, expenses and changes in net position. The Center's investments as of June 30, 2018 and 2017 meet the definition to be reported as cash equivalents.

Revenue recognition: Investment income is recognized as earned. Sponsorship revenues represent fees collected from companies for providing tradeshow booths and other space at industry trade shows. Sponsorship revenues are recognized when earned upon occurrence of the event. In fiscal year 2018, the Center created a 5-year public-private initiative for the Center's MassNextGen program. The sponsorships received from private sources are recorded as unearned revenue and recognized as sponsorship revenue once the grants are awarded under the program and agreements are executed. If the Center cancels or terminates the program prior to completion, any unused sponsorship funds received will be returned to the sponsors.

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

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

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

Loans receivable and interest receivable, net: Loans receivable, net, consists of loans issued by the Center through the Investment Fund 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 initial stated interest rate on each loan is 10% compounded annually.

Certain of these loan agreements include warrants that qualify as reportable derivative instruments under GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The value of these warrants is ultimately dependent upon the fair value of the companies which have issued the warrants. These loans are generally issued to companies that are otherwise unable to obtain market based financing. Most of these companies are pre-revenue start-up operations which are being incubated through the Investment Fund to promote economic development in the Commonwealth. Given the nature of these entities, the uncertainties associated with the ultimate viability of these companies precludes the Center from developing reliable estimates of the fair value of the related warrants. As such, it is the policy of the Center to recognize value associated with these warrant agreements only at such time as these warrants are ultimately exercised, at which point a reliable fair value is determined by a transaction, such as an initial public offering or a sale of the company.

As of June 30, 2018 and June 30, 2017, \$22,441,196 had been authorized and disbursed from the Investment Fund. During fiscal year 2018, three borrowers repaid their loans in full with a repayment of principal of \$2,695,877 and four borrowers partially repaid their loans with a repayment of principal of \$354,179. There were no new loans awarded or disbursed in fiscal year 2018.

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

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

During fiscal year 2017, the Center funded one new loan of \$750,000, four borrowers repaid their loans in full with a repayment of principal of \$3,234,500, and three borrowers partially repaid their loans with a repayment of principal of \$229,888. 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, 2018, \$7,928,422 of loans receivable were outstanding and \$5,952,369 had been reserved for losses, resulting in net loans receivable of \$1,976,053. In December 2017, the Center wrote off a loan receivable in the amount of \$245,000. The loan was fully reserved in fiscal year 2017. As of June 30, 2017, \$11,223,478 of loans receivable were outstanding and \$7,487,161 had been reserved for losses, resulting in net loans receivable of \$3,736,317. In June of 2017, the Center wrote off a loan receivable in the amount of \$520,000. The loan was fully reserved in fiscal year 2016.

The gross interest receivable balance was \$3,804,955 and \$4,223,023 as of June 30, 2018 and 2017, respectively. 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. The Center reserved \$3,046,721 and \$3,128,915 resulting in a net interest receivable of \$758,234 and \$1,094,108 as of June 30, 2018 and 2017, respectively. Interest is due at the end of the loan term or upon repayment of the loan due to a qualified financing of greater than \$5,000,000.

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 \$25,407 and \$27,982 for the years ended June 30, 2018 and 2017, 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 \$37,098,417 and \$56,643,681 for fiscal year 2018 and 2017, respectively. As of June 30, 2018 and 2017, \$12,560,392 and \$45,651,417, 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.

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

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Defined benefit plan: All employees of the Center participate in either the Commonwealth of Massachusetts State Retirement systems under a special funding situation where the Commonwealth of Massachusetts is a 100% non-employer contributor under GASB Statement 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, or the statutorily prescribed optional defined contribution plan provided by the Center. The Center makes no contributions for employees participating in the Commonwealth of Massachusetts State Retirement systems' pension plan (the "State Plan"). An actuarial valuation has been performed for the State Plan. The Center's employees were included in the actuarial analysis and a net pension liability of \$719,557 and \$765,923 as of June 30, 2018 and 2017, respectively, is owed by the Commonwealth and noted as part of the total State Plan's net pension liability. The State Plan's net pension liability and net position are disclosed in the footnotes and other required supplementary information of the Comprehensive Annual Financial Report of the Commonwealth as there are no liabilities to be recorded in the Center's statements. The Center has not included all required GASB Statement 68 disclosures as GASB Statement 68 is deemed immaterial to the Center.

Defined contribution plan: In fiscal year 2010, as provided by the 2008 Life Science Act, 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, 2018 and 2017 was \$155,507 and \$173,495, respectively. Vesting is immediate upon contribution. The Center pays administrative expenses of the Plan for the plan participants and VOYA is the custodian of the plan's assets. The balances of the plan are not included in the financial statements of the Center.

Related party-Massachusetts Neuroscience Consortium: In June 2012, the Center announced the formation of a separate initiative, the Massachusetts Neuroscience Consortium (the "Consortium"), a collaboration between seven global pharmaceutical companies. The Consortium will fund pre-clinical neuroscience at Massachusetts academic and research institutions. Each Consortium member has agreed to contribute \$250,000 to the Consortium for the first year membership contribution. The Center is not a member of the Consortium. 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 2018 and 2017, the Consortium received \$1,250,000 and \$1,750,000, respectively. These balances, plus interest from membership contributions to date, are held within the segregated bank account of the Center. The Consortium issued payments in the amount of \$1,750,000 and \$700,000 during fiscal years 2018 and 2017, respectively. The asset and corresponding liability balances of the Consortium are included in the financial statements of the Center as of June 30, 2018 and 2017. If the Consortium was to terminate, all remaining funds would be due back to the contributing members on a pro-rata basis.

Recent accounting pronouncements: In January 2017, GASB issued GASB Statement No. 84, *Fiduciary Activities*, which improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of this standard are effective for reporting periods beginning after December 15, 2018. Early adoption is permitted. The Center is currently evaluating the impact this pronouncement will have on the financial statements.

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

Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

In June 2017, GASB issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this standard are effective for reporting periods beginning after December 15, 2019. Early adoption is permitted. The Center is currently evaluating the impact this pronouncement will have on the financial statements.

Note 3. Related Party Transactions

Certain of the Center's Board's members have relationships with institutions that have received grants from the Center. Absent any statutory exemptions to the conflict of interest law, in circumstances where approval of such votes would create a conflict of interest, the Center's Board members are required to recuse themselves.

Note 4. Cash and Cash Equivalents

The Board of the Center is empowered under Chapter 23I of the Massachusetts General Law ("MGL"), which shall have all powers necessary or convenient to carry out and effectuate its purposes, including, without limiting the generality of the foregoing, the powers: to invest any funds held in reserves or sinking funds, or the 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 years 2018 and 2017, the majority of these assets were allocated to short-term investments/money market accounts which qualify as cash equivalents carried at amortized cost.

Custodial credit risk – deposits: Custodial credit risk for deposits exists when, in the event of failure of a depository financial institution, the Center's deposits may not be recovered. The Center does not have a policy for custodial risk. At June 30, 2018, bank deposits were \$6,298,698 which excludes the amount held in the Massachusetts Municipal Depository Trust ("MMDT" or the "Trust"). The Center invests some of its funds in the MMDT, an external investment pool for political subdivisions of the Commonwealth designed as a legal means to invest temporarily available cash. The State Treasurer serves as trustee of MMDT, and has sole authority pertaining to rules, regulations and operations of the Trust. Investment options the MMDT offers are a cash portfolio which offers participation in a diversified portfolio of high-quality money-market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity and Short-Term Bond Portfolio which offers participation in a diversified portfolio of investment-grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, presenting a fixed-income alternative with a longer time horizon than the cash portfolio. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized. The Center's investment balance as of June 30, 2018 at MMDT was solely in the cash portfolio. The cash portfolio is not registered with the Securities and Exchange Commission as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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

Notes to Financial Statements

Note 4. Cash and Cash Equivalents (Continued)

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

The following summarizes the cash and cash equivalents of the Center at June 30:

	2018	2017
Cash deposits	\$ 6,298,698	\$ 12,072,955
MMDT Cash Portfolio	25,619,529	30,214,769
	\$ 31,918,227	\$ 42,287,724

Note 5. Property and Equipment, Net

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

	2018	2017
Computer equipment	\$ 129,845	\$ 113,500
Office furniture	183,534	183,534
Leasehold improvements	103,157	103,157
	416,536	400,191
Accumulated depreciation	(377,035)	(358,029)
Property and equipment, net	\$ 39,501	\$ 42,162

Note 6. Accounts Payable and Accrued Expenses

As of June 30, 2018 and 2017, accounts payable and accrued expenses totaled \$369,775 and \$440,058, respectively. Those expenses primarily accounted for accrued salary, professional and consulting fees and marketing expenses.

Note 7. Grants and Commitments

Investment fund: The following grants were made out of the Investment Fund:

Research Grants:

In July 2008, the Board 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 awarded five new faculty grants totaling \$3,750,000 to various Massachusetts universities. The Board also awarded eleven new investigator grants totaling \$3,168,378 to a variety of research centers. For the year ended June 30, 2018, the Center expensed \$120,801 of which \$120,801 is not paid and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2017, the Center expensed \$123,687. Remaining commitments under the authorized grants are \$180,755 as of June 30, 2018.

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

In June 2015, the Board voted to approve \$1,990,380 for six cooperative research grants. For the year ended June 30, 2018, the Center expensed \$451,053 of which \$330,452 was not paid and is included in grants payable and accrued grant expense on the statement of net position. For the year ended June 30, 2017, the Center expensed \$785,312. Remaining commitments under the authorized grants are \$600,794 as of June 30, 2018.

Workforce Training Grants: The Center runs a year-round Internship Challenge Program which provides summer and academic year internships for students predominately studying science, technology, engineering, and mathematics at various life sciences companies. On an annual basis, the Board authorizes the amount that the Center uses to fund these internships. For the year ended June 30, 2018 and 2017, the Center incurred the following expenses relating to the Internship Challenge Program:

Program Year	Award Amount	Expensed Prior to FY17	Expensed FY17	Expensed FY18	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2018	Remaining payments as of June 30, 2018
FY15	\$ 2,515,794	\$ 2,560,506	\$ (44,712)	\$ -	\$ -	\$ -
FY16	3,434,220	1,052,005	2,434,460	(52,245)	-	-
FY17	3,700,000	-	1,100,103	2,444,624	497,959	653,232
FY18	3,700,000	-	-	1,010,171	1,010,171	3,700,000
Total	<u>\$ 13,350,014</u>	<u>\$ 3,612,511</u>	<u>\$ 3,489,851</u>	<u>\$ 3,402,550</u>	<u>\$ 1,508,130</u>	<u>\$ 4,353,232</u>

The Center runs programs for High School Apprenticeship Challenge which offers apprenticeships to high school students at life sciences companies and research institutions. On an annual basis, the Board authorizes the amount that the Center uses to fund the apprenticeship program. For the year ended June 30, 2018 and 2017, the Center incurred the following expense relating to the High School Apprenticeship Challenge Program:

Program Year	Award Amount	Expensed Prior to FY17	Expensed FY17	Expensed FY18	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2018	Remaining payments as of June 30, 2018
FY16	\$ 29,269	\$ -	\$ 29,269	\$ -	\$ -	\$ -
FY17	336,624	-	239,152	97,472	-	-
FY18	500,000	-	-	320,507	132,494	311,987
Total	<u>\$ 865,893</u>	<u>\$ -</u>	<u>\$ 268,421</u>	<u>\$ 417,979</u>	<u>\$ 132,494</u>	<u>\$ 311,987</u>

In December 2016, the Board voted to approve \$397,744 for professional development for teachers engaged in the education of life sciences in connection with the MLSC's Equipment and Supplies Program. For the year ended June 30, 2018, the Center expensed \$157,770 of which \$77,189 is not paid and is included in grants payable and accrued grants expense on the statement of net position. For the year ended June 30, 2017 the Center expensed \$155,424. Remaining commitments under the authorized grants are \$161,739 as of June 30, 2018.

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

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Industry and Innovation Grants: In May 2015, the Board voted to approve twelve awards totaling \$2,242,335 in grant funding for the Milestone Achievement Program to enable early stage companies in achieving critical, value creating milestones. For the year ended June 30, 2018, the Center expensed \$27,648. For the year ended June 30, 2017, the Center expensed \$155,896. There are no remaining commitments under the authorized grants as of June 30, 2018.

In June 2017, the Board voted to approve eight awards totaling \$1,635,250 in grant funding for the MassRamp Program to enable early stage companies to leverage federal funding to fuel and sustain innovation for companies that received a Phase I federal grant. For the year ended June 30, 2018, the Center expensed \$1,097,878 for the program. For the year ended June 30, 2017, the Center incurred no expense. Remaining commitments under the grants are \$537,372 as of June 30, 2018.

In April 2018, the Board voted to approve two awards totaling \$125,000 in grant funding for the MassNextGen Program to support women entrepreneurs engaged in the advancement of early-stage life sciences companies to ensure an innovative and thriving ecosystem in Massachusetts. For the year ended June 30, 2018, the Center expensed \$50,000 for the program of which \$50,000 is 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 \$125,000 as of June 30, 2018.

Other grants: The Center has made grants to various Science, Technology, Engineering, and Mathematics (“STEM”) related education grants, workforce training and development grants, business plan competitions, as well as programs to foster collaboration between Massachusetts and international organizations. For the fiscal years ended June 30, 2018 and June 30, 2017 the Center had the following active grants:

Grant	Award Amount	Expensed Prior to FY17	Expensed FY17	Expensed FY18	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2018	Remaining Payments as of June 30, 2018
STEM and Workforce Development Grants	\$ 630,594	\$ 118,768	\$ 231,552	\$ 180,275	\$ 21,267	\$ 121,266
Scientific Research Grants	250,000	-	-	196,162	-	53,838
Business Plan Competitions	325,000	-	-	45,000	-	280,000
International Programs and Partnerships	4,247,721	3,023,700	432,606	429,172	69,803	432,046
Total	\$ 5,453,315	\$ 3,142,468	\$ 664,158	\$ 850,609	\$ 91,070	\$ 887,150

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

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Capital program grants: The following table summarizes active grants in fiscal year 2018 and 2017 under the Capital Program:

Awardee	Location	Award Amount	Expenses Prior to			Amount in Grants Payable or Accrued Grant Expense as of June 30, 2018	Remaining Payments as of 6/30/18
			FY17	Expensed FY17	Expensed FY18		
BioBuilder	Cambridge	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ 500,000
Boston Children's Hospital	Boston	2,263,133	414,701	331,797	1,289,823	937,928	1,164,740
Boston University	Boston	1,743,648	1,648,874	94,774	-	-	-
Brigham & Women's Hospital	Boston	2,603,537	1,640,155	963,382	-	-	-
Bristol Community College	Bristol	4,400,000	-	-	3,900,000	-	500,000
City of Pittsfield	Pittsfield	12,025,000	817,126	(914)	4,480	-	11,204,308
Dana-Farber Cancer Institute	Boston	4,629,019	-	-	4,629,019	414,308	414,308
Dean College	Franklin	297,030	-	157,080	73,913	20,834	86,871
Framingham State University	Framingham	454,000	-	454,000	-	-	-
FY15 College Planning/Equip	Various	2,491,464	2,280,178	193,201	7,879	-	10,206
FY16 College Equipment	Various	1,835,000	1,806,577	16,296	12,120	12,120	12,127
Gloucester Marine Genomics Institute	Gloucester	2,744,219	-	691,061	1,112,989	618,074	1,558,243
Harvard Medical School	Cambridge	4,345,000	-	-	3,809,904	2,609,602	3,144,698
Harvard School of Public Health	Cambridge	4,912,307	-	1,226,039	2,569,263	304,232	1,421,237
Institute for Protein Innovation	Boston	5,000,000	-	1,029,638	3,257,940	773,665	1,486,087
Lab Central	Cambridge	5,000,000	-	5,000,000	-	-	-
LSC – North Shore	See Note	5,000,000	4,357,932	642,068	-	-	-
MA Green High Performing Computing Ctr	Holyoke	4,540,000	3,432,302	1,107,698	-	-	-
Merrimack College	North Andover	500,000	-	-	500,000	-	-
Middlesex Community College	Bedford/Lowell	3,000,000	-	3,000,000	-	-	-
Mt. Wachusett Community College	Gardner	1,646,787	-	-	252,804	122,914	1,516,897
Quinsigamond Community College	Worcester	5,000,000	742,266	3,670,449	579,504	301,453	309,234
Roxbury Community College	Roxbury Crossing	3,000,000	999,694	2,000,306	-	-	-
Smith College	Northampton	489,435	-	489,435	-	-	-
Springfield Technical Community College	Springfield	972,850	968,433	4,417	-	-	-
The Forsyth Institute	Boston	2,210,229	1,439,644	770,585	-	-	-
UMASS Amherst	Amherst	95,000,000	68,704,709	23,012,983	3,282,308	-	-
UMASS Boston	Boston	10,000,000	5,838,769	3,362,027	677,708	404,588	526,084
UMASS Boston	Boston	588,848	466,924	66,549	55,375	-	-
UMASS Lowell	Lowell	5,046,592	5,001,208	44,348	1,036	-	-
UMASS Lowell	Lowell	5,000,000	-	-	3,000,000	3,000,000	5,000,000
UMASS Medical School	Boston	5,000,000	4,971,433	28,567	-	-	-
Venture Café	Boston	347,000	261,466	77,446	8,088	-	-
Wellesley College	Wellesley	49,376	13,695	6,212	29,469	-	-
Westfield State University	Westfield	75,000	-	9,900	33,664	5,500	36,936
		\$ 202,709,474	\$ 105,806,086	\$ 48,449,344	\$ 29,087,286	\$ 9,525,218	\$ 28,891,976

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:

Program Year	Location						
FY16 HS Equipment Grant	Various	\$ 3,774,535	\$ 3,606,756	\$ 64,472			\$ 103,307
FY17 HS Equipment Grant	Various	4,000,000	-	2,502,696	1,434,843	725,038	787,499
		\$ 7,774,535	\$ 3,606,756	\$ 2,567,168	\$ 1,434,843	\$ 725,038	\$ 890,806
		\$ 210,484,009	\$ 109,412,842	\$ 51,016,512	\$ 30,522,129	\$ 10,250,256	\$ 29,782,782

Total remaining commitments for all capital program grants as of June 30, 2018 are \$29,782,782 which is contingent upon the Commonwealth fulfilling their funding obligations to the Center.

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

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Facility lease: In December 2008, the Center entered into a 5-year non-cancelable operating lease through March 2014 for its facilities in Waltham, Massachusetts. In June 2013, the Center renewed its lease with expansion space to be occupied in October 2013. The renewed lease is through March 2019. Rent expense under the operating lease was \$263,175 for each of the years ended June 30, 2018 and 2017.

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

2019	\$ 197,000
	<u>\$ 197,000</u>

Note 8. Subsequent Events

Management has evaluated subsequent events through September 26, 2018.

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

To the Board of Directors of the
Massachusetts Life Sciences Center

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 business-type activities 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, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated September 26, 2018. Our report contained a qualified opinion related to the Center not having recognized or disclosed any values associated with unexercised warrants as the financial effects of recognizing and disclosing such information are not reasonably estimable.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Boston, Massachusetts
September 26, 2018