

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, 2020

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RSM US LLP

Independent Auditor's Report

Board of Directors
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, 2020 and 2019, 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, as well as convertible notes. Certain of those loan agreements include warrants and convertible features 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 and convertible notes held by the Center as of June 30, 2020 and 2019, 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 or convertible features 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, 2020 and 2019, 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 3–7 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 24, 2020, 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 24, 2020

**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, 2020, 2019 and 2018. 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 10 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. This 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, 2020 and 2019. 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.

**Massachusetts Life Sciences Center
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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, 2020 and 2019. 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, 2020 and 2019.

Financial highlights: Fiscal year 2020 is the twelfth 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 an eleventh round of awards under the Life Sciences Tax Incentive Program were granted. This fiscal year represents the second year of activities under the new reauthorization.

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 2020, the Center incurred \$6.8 million of grant expense through the Investment Fund, compared to \$5.9 million of grant expense in fiscal year 2019 and \$6.6 million of grant expense in fiscal year 2018. The expenses were for research grants, workforce development programs and programs that support innovation in life sciences. The \$0.9 million increase from fiscal year 2020 to 2019 is due to increased programming activities, including additional programs deployed for COVID-19 response. The \$0.7 million decrease from fiscal year 2019 to 2018 is due to timing of awards. Remaining payment for commitments as of June 30, 2020 on the outstanding Investment Fund grants are \$11.2 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 2020, the Center incurred \$28.4 million of grant expense in the Capital Program compared to \$16.6 million of grant expense in fiscal year 2019 and \$29.1 million of grant expense in fiscal year 2018. The \$11.8 million increase from fiscal year 2020 to 2019 is due to increased programming activities and timing of award expenditures. The \$12.5 million decrease from fiscal year 2019 to 2018 is due to timing of award expenditures and timing of new programs. Remaining payment for commitments as of June 30, 2020 on the outstanding Capital Program grants are \$61.2 million.

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 2020, the Center incurred \$20 thousand of expense. The Center incurred \$1.0 million and \$1.4 million of expense in fiscal years 2019 and 2018, respectively.

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Management's Discussion and Analysis (unaudited)

Life Sciences Tax Incentive Program: The Life Sciences Tax Incentive Program was created by the *Life Sciences Act* and allows the Center to award tax incentives to companies at every stage of development on behalf of the DOR. The Center has the ability to award ten different tax incentives with a cumulative cap of \$25.0 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 \$19.5 million to 35 companies in fiscal year 2020, \$20 million to 27 companies in fiscal year 2019 and \$19.9 million to 23 companies in fiscal year 2018.

Investment income: Investment income in fiscal year 2020 was \$516,034 compared to \$730,455 in fiscal year 2019 and \$496,283 in fiscal year 2018. Investment income relates primarily to interest earned throughout the fiscal year on the Center's cash and cash equivalent balance. The decrease from 2020 to 2019 is due to decrease in interest rates. The increase from 2019 to 2018 is due to higher average balance and increase in interest rates.

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 2020, the Center incurred \$3.6 million of administrative expenses and purchases of property and equipment. In fiscal year 2019 and 2018, the Center incurred \$3.6 million and \$3.1 million of administrative expenses, respectively. The relatively consistent balance in expenditures from 2020 to 2019 is primarily due to open positions offset by increased professional and consulting fees relating to legal and consulting activities relating to the Center's Seed Fund program as well as increased IT costs. The increase in expenditures from 2019 to 2018 is primarily due to increase in office rental costs as well as the related moving and capital equipment purchases. The Center's lease expired at the end of March 2019, and the Center entered into a new lease at a different office location in Waltham, Massachusetts. The increase is also driven by marketing and communications costs to conduct a rebranding project in line with the Center's new reauthorization strategy. For the fiscal years ended June 30, 2020, 2019 and 2018, the headcount of the Center at the end of the fiscal year was 18, 23 and 18, 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.

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Management's Discussion and Analysis (unaudited)

Financial summary: The following summarizes the Statement of Net Position and Revenue, Expenses and Changes in Net Position for fiscal years 2020, 2019 and 2018.

Statement of Net Position

	June 30, 2020	June 30, 2019	June 30, 2018
Assets			
Current assets:			
Current assets	\$ 66,172,578	\$ 44,325,828	\$ 42,929,336
Assets held on behalf of Neuroscience Consortium	1,770,008	1,841,060	1,079,956
Noncurrent assets	1,400,699	464,543	2,084,107
Capital assets	92,990	113,968	39,501
Total assets	<u>\$ 69,436,275</u>	<u>\$ 46,745,399</u>	<u>\$ 46,132,900</u>
Liabilities:			
Current liabilities	\$ 13,866,563	\$ 10,366,539	\$ 12,930,167
Noncurrent liabilities	17,940,884	2,052,060	1,224,956
Total liabilities	<u>31,807,447</u>	<u>12,418,599</u>	<u>14,155,123</u>
Net position:			
Net investment in capital assets	92,990	113,968	39,501
Unrestricted	37,535,838	34,212,832	31,938,276
Total net position	<u>37,628,828</u>	<u>34,326,800</u>	<u>31,977,777</u>
Total liabilities and net position	<u>\$ 69,436,275</u>	<u>\$ 46,745,399</u>	<u>\$ 46,132,900</u>

**Statements of Revenues, Expenses
and Changes in Net Position**

	June 30, 2020	June 30, 2019	June 30, 2018
Revenues and expenses:			
Operating revenues	\$ 30,108,646	\$ 18,031,944	\$ 31,823,429
Operating expenses	(37,322,652)	(26,413,376)	(38,897,535)
Operating loss	<u>(7,214,006)</u>	<u>(8,381,432)</u>	<u>(7,074,106)</u>
Nonoperating revenues	516,034	730,455	496,283
Capital contributions	10,000,000	10,000,000	-
Increase (decrease) in net position	<u>\$ 3,302,028</u>	<u>\$ 2,349,023</u>	<u>\$ (6,577,823)</u>

The Center's net position increased \$3.3 million (10%) for the fiscal year ending June 30, 2020, as compared to \$2.3 million (7%) for the fiscal year ending June 30, 2019, and \$6.6 million (17%) decrease for the fiscal year ending June 30, 2018.

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Management's Discussion and Analysis (unaudited)

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. The Center received \$10.0 million of appropriations in fiscal years 2020 and 2019. There were no appropriations from the legislature during fiscal year 2018. The Center ended the year with total net position of \$37.6 million as of June 30, 2020, \$34.3 million as of June 30, 2019 and \$32.0 million as of June 30, 2018.

Liquidity of the Investment Fund: From inception through June 30, 2020, the Investment Fund has received appropriations from the Commonwealth of \$145.9 million. In addition, the Center has earned investment income of \$4.4 million and collected \$23.2 million through loan repayments, sponsorship, insurance proceeds and corporate consortium revenues for total inflows of \$173.5 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, 2020, the Center has disbursed or reserved \$158.9 million resulting in \$14.6 million of available funds as of June 30, 2020.

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.

**Massachusetts Life Sciences Center
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**Statements of Net Position
June 30, 2020 and 2019**

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,574,013	\$ 16,729,560
Accounts receivable	659	25,000
Grant reimbursement receivable from Commonwealth of Massachusetts	-	8,303,945
Loans receivable, net	1,444,000	896,774
Interest receivable, net	384,206	489,274
Assets held on behalf of Neuroscience Consortium	1,770,008	1,841,060
Prepaid expenses and other current assets	138,024	120,515
Assets committed under programs and awards:		
Cash and cash equivalents	49,631,676	17,760,760
Total current assets	67,942,586	46,166,888
Non-current assets:		
Loans receivable, net	632,711	320,209
Interest receivable, net	516,063	144,334
Convertible notes receivable	251,925	-
Net property and equipment	92,990	113,968
Total noncurrent assets	1,493,689	578,511
Total assets	\$ 69,436,275	\$ 46,745,399
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 324,863	\$ 352,790
Grants payable and accrued grant expense	13,541,700	10,013,749
Total current liabilities	13,866,563	10,366,539
Noncurrent liabilities:		
Unearned revenue	16,170,876	211,000
Agency obligation to the Neuroscience Consortium	1,770,008	1,841,060
Total noncurrent liabilities	17,940,884	2,052,060
Total liabilities	31,807,447	12,418,599
Net Position		
Net investment in capital assets	92,990	113,968
Unrestricted	37,535,838	34,212,832
Total net position	37,628,828	34,326,800
Total liabilities and net position	\$ 69,436,275	\$ 46,745,399

See notes to financial statements.

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

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating income:		
Capital program revenues from Commonwealth of Massachusetts	\$ 28,439,914	\$ 17,578,067
Grant revenues	266,582	109,000
Sponsorship	4,000	1,905
Interest income	1,398,150	342,972
Total operating income	30,108,646	18,031,944
Operating expenses:		
Grant expense	35,239,303	23,474,789
Salary and related employee expenses	2,313,406	2,345,711
Professional and consulting fees	429,366	304,653
Communications programs, sponsorships and contributions	137,246	343,182
General and administrative expenses	656,855	558,012
Loan loss reserve recovery & write off	(1,504,630)	(642,043)
Depreciation	51,106	29,072
Total operating expenses	37,322,652	26,413,376
Operating loss	(7,214,006)	(8,381,432)
Non-operating revenues:		
Investment income	516,034	730,455
Total nonoperating revenues	516,034	730,455
Loss before capital contributions	(6,697,972)	(7,650,977)
Contributions from the Commonwealth of Massachusetts	10,000,000	10,000,000
Increase in net position	3,302,028	2,349,023
Net position:		
Beginning of year	34,326,800	31,977,777
End of year	\$ 37,628,828	\$ 34,326,800

See notes to financial statements.

Massachusetts Life Sciences Center
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Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Receipts for reimbursements from the Commonwealth	\$ 52,766,735	\$ 19,524,378
Payments for grants	(31,711,352)	(26,021,439)
Payments for salary and related employee expenses	(2,282,563)	(2,306,069)
Payments for professional consulting fees	(429,366)	(304,653)
Payments for general and administrative expenses	(733,137)	(642,319)
Payments for communication programs, sponsorships and contributions	(137,246)	(343,182)
Receipts for grant revenues	227,924	150,000
Receipts for loan interest income	664,344	484,973
Receipts for sponsorships	4,000	1,905
Net cash provided by (used in) operating activities	18,369,339	(9,456,406)
Cash flows from capital and related financing activities:		
Receipt of contributions from the Commonwealth of Massachusetts	10,000,000	10,000,000
Net cash provided by capital and related financing activities	10,000,000	10,000,000
Cash flows from investing activities:		
Purchase of property and equipment	(30,127)	(103,539)
Issuance of convertible notes	(250,000)	-
Receipt repayment of loans	1,110,123	1,401,583
Receipt of investment income	516,034	730,455
Net cash provided by investing activities	1,346,030	2,028,499
Net increase in cash and cash equivalents	29,715,369	2,572,093
Cash and cash equivalents:		
Beginning of year	34,490,320	31,918,227
End of year	\$ 64,205,689	\$ 34,490,320
Reconciliation of cash flows from operating activities:		
Operating loss	\$ (7,214,006)	\$ (8,381,432)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	51,106	29,072
Loan loss reserve	(1,504,630)	(642,043)
Loan interest reserve	(1,021,373)	545,652
Changes in assets and liabilities:		
Accounts receivable	24,341	(24,764)
Grant reimbursement from Commonwealth	8,303,945	1,946,312
Interest receivable	289,490	(421,496)
Convertible note interest receivable	(1,925)	-
Prepaid expenses and other current assets	(17,509)	(10,079)
Accounts payable and accrued expenses	(27,927)	(16,985)
Grants payable and accrued grant expense	3,527,951	(2,546,643)
Unearned revenues	15,959,876	66,000
Total adjustments	25,583,345	(1,074,974)
Net cash provided by (used in) operating activities	\$ 18,369,339	\$ (9,456,406)

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 the Government 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.

**Massachusetts Life Sciences Center
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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 2020 and 2019, there were no deferred outflows or inflows of resources.

Restricted: Restricted net position represents the portion of net position that is reported as restricted when there are external third party limitations (statutory, contractual, or bond covenant) on its use. At June 30, 2020 and 2019, 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.

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.

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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Investments: Pursuant to GASB 79, *Certain External Investment Pools and Pool Participants*, the Center's investments are in 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, 2020 and 2019, 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 five-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 recognizes the capital program revenue when related capital expenses are incurred.

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 five 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, 2020 and 2019, \$22.4 million had been authorized and disbursed from the Investment Fund. During fiscal year 2020, one borrower repaid their loan in full with a repayment of principal of \$778,496 and six borrowers partially repaid their loans with a repayment of principal of \$331,627. During fiscal year 2019, one borrower repaid their loan in full with a repayment of principal of \$750,000 and six borrowers partially repaid their loans with a total repayment of principal of \$651,583. There were no new loans awarded or disbursed in fiscal year 2020 and 2019.

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

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, 2020, \$4,417,186 of loans receivable were outstanding and \$2,340,475 had been reserved for losses, resulting in net loans receivable of \$2,076,711. As of June 30, 2019, \$5,527,309 of loans receivable were outstanding and \$4,310,326 had been reserved for losses, resulting in net loans receivable of \$1,216,983. In December 2018, the Center wrote off a loan receivable in the amount of \$1,000,000. The loan was fully reserved in fiscal year 2017.

The gross interest receivable balance was \$2,782,660 and \$3,537,373 as of June 30, 2020 and 2019, 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 \$1,882,391 and \$2,903,765, resulting in a net interest receivable of \$900,269 and \$633,608 as of June 30, 2020 and 2019, 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 \$51,106 and \$29,072 for the years ended June 30, 2020 and 2019, 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 \$35,239,303 and \$23,474,789 for fiscal year 2020 and 2019, respectively. As of June 30, 2020 and 2019, \$13,541,700 and \$10,013,749, respectively, was recorded as grants payable and accrued grant expense, representing grant expense incurred but not yet paid.

Income taxes: Pursuant to Massachusetts General Laws chapter 231 §6(a), the operations of the Center constitute the performance of an essential government function and are therefore exempt from taxation by and within the Commonwealth.

**Massachusetts Life Sciences Center
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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 \$782,734 and \$651,978 as of June 30, 2020 and 2019, 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, 2020 and 2019 was \$184,434 and \$183,787, 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 years 2020 and 2019, the Consortium received \$1,250,000 and \$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 \$1,332,824 of payments during fiscal year 2020 and issued no payments during fiscal year 2019. The asset and corresponding liability balances of the Consortium are included in the financial statements of the Center as of June 30, 2020 and 2019. 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, 2019. Early adoption is permitted. The Center is currently evaluating the impact this pronouncement will have on the financial statements.

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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 June 15, 2021. Early adoption is permitted. The Center is currently evaluating the impact this pronouncement will have on the financial statements.

In March 2020, GASB issues GASB Statement No. 93, *Replacement of Interbank Offered Rates*. Some governments have entered into agreements in which variable payments made or received depend on an interbank offered rate (IBOR)—most notably, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, requires a government to terminate hedge accounting when it renegotiates or amends a critical term of a hedging derivative instrument, such as the reference rate of a hedging derivative instrument's variable payment. In addition, in accordance with GASB Statement No. 87, *Leases*, as amended, replacement of the rate on which variable payments depend in a lease contract would require a government to apply the provisions for lease modifications, including re-measurement of the lease liability or lease receivable. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is permitted. The Center is currently evaluating the impact this pronouncement will have on the financial statements.

In May 2020, GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions that may impact the Center are postponed by one year: GASB Statement No. 84, *Fiduciary Activities* and GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The effective date for GASB Statement No. 87, *Leases* was postponed by 18 months. The requirements of this Statement are effective immediately and the amended effective dates have been reflected in the pronouncement disclosures above.

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.

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Notes to Financial Statements

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 2020 and 2019, 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, 2020, bank deposits were \$37,504,497, 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, 2020 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*.

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, Massachusetts 02110.

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

	2020	2019
Cash deposits	\$ 37,504,497	\$ 8,230,552
MMDT Cash Portfolio	26,701,192	26,259,768
	<u>\$ 64,205,689</u>	<u>\$ 34,490,320</u>

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Notes to Financial Statements

Note 5. Property and Equipment, Net

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

	2020	2019
Computer equipment	\$ 152,425	\$ 141,056
Office furniture	236,529	217,770
Leasehold improvements	<u>12,380</u>	<u>12,380</u>
	401,334	371,206
Accumulated depreciation	<u>(308,344)</u>	<u>(257,238)</u>
Property and equipment, net	<u>\$ 92,990</u>	<u>\$ 113,968</u>

Note 6. Accounts Payable and Accrued Expenses

As of June 30, 2020 and 2019, accounts payable and accrued expenses totaled \$324,863 and \$352,790, 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 June 2015, the Board voted to approve \$1,990,380 for six cooperative research grants. For the year ended June 30, 2020, the Center expensed \$142,486, of which \$88,769 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, 2019, the Center expensed \$127,854. Remaining payments and commitments under the authorized grants are \$88,769, as of June 30, 2020.

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 years ended June 30, 2020 and 2019, the Center incurred the following expenses relating to the Internship Challenge Program:

Program Year	Award Amount	Expensed Prior to FY19	Expensed FY19	Expensed FY20	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2020	Remaining payments as of June 30, 2020
FY16 Internship	\$ 3,434,220	\$ 3,434,220	\$ -	\$ -	\$ -	\$ -
FY17 Internship	3,439,401	3,544,727	(105,326)	-	-	-
FY18 Internship	3,666,065	1,010,171	2,689,829	(33,935)	-	-
FY19 Internship	3,700,000	-	993,581	2,382,412	595,001	919,008
FY20 Internship	3,700,000	-	-	848,454	848,454	3,700,000
FY20 Data Science Internship	500,000	-	-	-	-	500,000
	<u>\$ 18,439,686</u>	<u>\$ 7,989,118</u>	<u>\$ 3,578,084</u>	<u>\$ 3,196,931</u>	<u>\$ 1,443,455</u>	<u>\$ 5,119,008</u>

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

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, 2020 and 2019, the Center incurred the following expense relating to the High School Apprenticeship Challenge Program:

Program Year	Award Amount	Expensed Prior to FY19	Expensed FY19	Expensed FY20	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2020	Remaining payments as of June 30, 2020
2017 HS Apprenticeship	\$ 336,624	\$ 336,624	\$ -	\$ -	\$ -	\$ -
2018 HS Apprenticeship	425,671	320,507	105,164	-	-	-
2019 HS Apprenticeship	577,698	-	434,714	142,984	-	-
2020 HS Apprenticeship	650,000	-	-	206,234	27,769	471,535
	<u>\$ 1,989,993</u>	<u>\$ 657,131</u>	<u>\$ 539,878</u>	<u>\$ 349,218</u>	<u>\$ 27,769</u>	<u>\$ 471,535</u>

In December 2018, the Board voted to approve \$145,888 for professional development for teachers engaged in the education of life sciences in connection with the Center's STEM Equipment and Supplies Program for the Boston, Lawrence, Lowell and Springfield public school districts. For the year ended June 30, 2020, the Center expensed \$103,501 of which \$68,344 are included in grants payable and accrued grant expenses. For the year ended June 30, 2019, the Center expensed \$30,672. Remaining payments and commitments under the authorized grants are \$80,008 as of June 30, 2020. In February 2020, the Board voted to approve \$12,000 for professional development for teachers for Salem public school district, and in June 2020 the Board voted to approve \$93,700 for Chelsea public school district. For the year ended June 30, 2020, the Center incurred no expense. Remaining payments and commitments under the authorized grants are \$105,700 as of June 30, 2020.

Industry and innovation grants: The Center runs a variety of programs on an annual basis to support early stage companies to ensure a thriving life science ecosystem in the Commonwealth. Currently the Center has three programs to support these companies, including The Milestone Achievement Program (MAP), which is aimed at enabling early stage companies in achieving critical, value creating milestones; the MassRamp Program, which is designed to leverage federal funding to fuel and sustain innovation for companies that received a Phase I federal grant; and MassNextGen Program, which aims to support women entrepreneurs engaged in the advancement of early-stage life sciences companies. The Center also has one program aimed at attracting companies to relocate into Massachusetts, called the MassTAG program. For the years ended June 30, 2020 and 2019, the Center incurred the following expenses relating to the early stage grant programs:

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Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Program	Award Amount	Expensed Prior to FY19	Expensed FY19	Expensed FY20	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2020	Remaining payments as of June 30, 2020
FY19 MAP	\$ 1,987,247	\$ -	\$ 258,538	\$ 1,030,299	\$ 295,017	\$ 993,427
FY17 MassRamp	1,635,250	1,635,250	-	-	-	-
FY18 MassNextGen	125,000	125,000	-	-	-	-
FY19 MassNextGen	437,500	-	280,000	122,500	-	35,000
FY20 MassNextGen	512,500	-	-	410,000	68,333	170,833
MassTAG	1,305,000	-	235,000	365,000	130,000	835,000
Total	\$ 6,002,497	\$ 1,760,250	\$ 773,538	\$ 1,927,799	\$ 493,350	\$ 2,034,260

Other grants: The Center has made grants to various 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, 2020 and 2019, the Center incurred the following expenses:

	Award Amount	Expensed Prior to FY19	Expensed FY19	Expensed FY20	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2020	Remaining payments as of June 30, 2020
STEM and Workforce Development Grants	\$ 680,589	\$ 416,341	\$ 66,208	\$ 148,040	\$ 25,000	\$ 75,000
Scientific Research Grants	250,000	196,162	21,225	32,613	-	-
Business Plan Competitions	550,000	45,000	145,000	97,500	-	262,500
International Programs and Partnerships	3,872,462	3,885,479	(13,017)	-	-	-
	\$ 5,353,051	\$ 4,542,982	\$ 219,416	\$ 278,153	\$ 25,000	\$ 337,500

COVID-19 Response grants: In April 2020, the Board authorized the Center to deploy up to \$5 million from the Center's Investment Funds for projects designed to combat the COVID-19 pandemic. The Center committed \$851,309 of awards through the Manufacturing Emergency Response Team (M-ERT) program and \$2,334,690 to support projects through the Massachusetts Consortium for Pathogen Readiness (MassCPR). For the fiscal year ended June 30, 2020, the Center expensed \$801,302 of which \$614,316 is not paid and is included in Grants Payable and Accrued Grant Expenses. Remaining payments and commitments under the authorized grants are \$2,999,283 as of June 30, 2020.

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

Biomanufacturing capital programs: The Center is a member of the National Institute for Innovation in Manufacturing Biopharmaceuticals (NIIMBL), which is a national initiative designed to accelerate biopharmaceutical manufacturing innovation in the United States, support the development of standards that enable more efficient and rapid manufacturing capabilities and educate and train a world-leading biopharmaceutical manufacturing workforce, fundamentally advancing U.S. competitiveness in this industry. The Center committed to providing cost-share for NIIMBL projects in Massachusetts provided that each project presented for funding be vetted by the Center's Scientific Advisory Board, submitted to the Center's Investment Committee for review, and approved by the Board prior to funding. As of June 30, 2020, the Board has approved ten projects totaling \$3,472,323. For the year ending June 30, 2020, the Center expensed \$1,693,205 of which \$415,387 is not paid and is included in grants payable and accrued grant expense on the statement of net position. For the year ending June 30, 2019, the Center expensed \$1,441,845. Remaining payments and commitments under the authorized grants are \$747,533 as of June 30, 2020.

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Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

In February 2019, the Board approved four grants totaling \$2,826,618 for the Building Breakthroughs program, a program designed to provide grants for capital projects in Massachusetts by enabling and supporting biomanufacturing innovation, including improvements to upstream/downstream processing, production of cell and gene therapies, monoclonal antibodies, and small molecules, quality and safety, and storage/stability in the Commonwealth. The program is aimed to address biomanufacturing bottlenecks that is keeping therapies from patients and potentially reduce costs and avoid drug shortages. For the year ended June 30, 2020, the Center expensed \$1,320,239 of which \$973,029 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, 2019, the Center incurred no expense. Remaining payments and commitments under the authorized grants are \$2,479,408 as of June 30, 2020.

Big Data Capital Program: In June 2019, the Board approved nine awards totaling \$6,714,743 for the Bits to Bytes program, a program designed to provide grants for capital projects in Massachusetts by enabling and supporting the generation and analysis of large datasets to answer pressing life science questions, and to attract and train data scientists in the Commonwealth. For the year ended June 30, 2020, the Center expensed \$2,137,336 of which \$1,782,167 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, 2019, the Center incurred no expense. Remaining payments and commitments under the authorized grants are \$6,359,573 as of June 30, 2020.

In June 2020, the Board approved six awards totaling \$4,640,749 for the second round of the Bits to Bytes program. For the year ended June 30, 2020, the Center incurred no expense. Remaining payments and commitments under the authorized grants are \$4,640,749 as of June 30, 2020.

Women's Health Capital Program: In June 2020, the Board approved five awards totaling \$4,123,531 for the Women's Health program, a program designed to provide grants for capital projects in Massachusetts by supporting projects that aim to improve the discovery, technical innovation, and/or analysis of datasets to answer pressing life science questions around women's health. For the year ended June 30, 2020, the Center incurred no expense. Remaining payments and commitments under the authorized grants are \$4,123,531 as of June 30, 2020.

Novel Therapeutics Delivery Capital Program: In June 2020, the Board approved six awards totaling \$4,271,776 for the Novel Therapeutics Delivery program, a program designed to provide grants for capital projects in Massachusetts that aim to foster the development of novel technologies and techniques for the delivery of existing or innovative therapies by working at the intersection of engineering, biology, chemistry, and medicine. For the year ended June 30, 2020, the Center incurred no expense. Remaining payments and commitments under the authorized grants are \$4,271,776 as of June 30, 2020.

Capital program grants: The Competitive Capital Program is designed to provide grants for capital infrastructure projects that support the life sciences ecosystem in Massachusetts by enabling and supporting life sciences workforce development and training, research and development, commercialization and/or manufacturing in the Commonwealth.

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Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

The following table summarizes active grants in fiscal years 2020 and 2019 under the Open Capital Program:

	Award Amount	Expensed Prior to FY19	Expensed FY19	Expensed FY20	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2020	Remaining payments as of June 30, 2020
Berkshire Innovation Center	\$ 12,025,000	\$ 820,692	\$ 7,185,843	\$ 4,018,465	\$ -	\$ -
Quinsigamond Community College	4,999,998	4,992,219	7,779	-	-	-
Gloucester Marine Genomics Institute	2,744,219	1,804,049	940,170	-	-	-
Harvard Medical School	4,345,000	3,809,904	535,096	-	-	-
Harvard School of Public Health	4,912,307	3,795,302	786,411	330,594	21,084	21,084
Institute for Protein Innovation	5,000,000	4,287,578	712,422	-	-	-
BioBuilder	500,000	-	-	-	-	500,000
University of Massachusetts Lowell	5,000,000	3,000,000	2,000,000	-	-	-
Bristol Community College	4,400,000	3,900,000	417,100	82,900	8,571	8,571
Mount Wachusett Community College	1,646,725	252,804	1,393,921	-	-	-
Dean College	297,030	230,993	66,037	-	-	-
Baystate Health	3,949,912	-	-	598,744	598,744	3,949,912
Boston University Medical School	4,991,000	-	-	3,266,148	2,150,724	3,875,576
Brigham & Women's Hospital	5,000,000	-	-	3,025,423	1,479,420	3,453,997
Boston Children's Hospital	1,545,050	-	-	200,608	15,667	1,360,109
Gloucester Marine Genomics Institute	174,383	-	-	150,562	5,966	29,787
Massachusetts General Hospital	4,805,000	-	-	954,935	-	3,850,065
Northeastern University	4,271,867	-	402,851	2,401,848	356,522	1,823,690
Quincy College	725,739	-	98,186	313,418	11,153	325,288
MassBay Community College	500,000	-	369,115	79,703	60,721	111,903
Massachusetts Biomedical Initiatives	3,494,256	-	-	3,494,256	333,800	333,800
North Shore Innoventures	1,500,000	-	-	169,502	-	1,330,498
LabCentral 238	5,000,000	-	-	-	-	5,000,000
Massachusetts Biomedical Initiatives	500,000	-	-	500,000	500,000	500,000
Beth Israel Deaconess Medical Center	1,705,471	-	-	-	-	1,705,471
University of Massachusetts Amherst	299,329	-	-	289,233	289,233	299,329
University of Massachusetts Amherst	515,626	-	-	3,472	3,472	515,626
University of Massachusetts Medical School	1,370,315	-	-	-	-	1,370,315
The Mansfield Bio-Incubator, Inc.	2,000,000	-	-	-	-	2,000,000
University of Massachusetts Amherst	129,900	-	-	-	-	129,900
University of Massachusetts Boston	388,324	-	-	-	-	388,324
University of Massachusetts Amherst	1,101,559	-	-	-	-	1,101,559
Worcester Polytechnic Institute	877,314	-	-	-	-	877,314
University of Massachusetts Medical School	926,305	-	-	908,711	908,711	926,305
University of Massachusetts Lowell	1,132,950	-	-	610,000	610,000	1,132,950
	\$ 92,774,579	\$ 26,893,541	\$ 14,914,931	\$ 21,398,522	\$ 7,353,788	\$ 36,921,373

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

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

STEM equipment and supplies program: The STEM Equipment and Supplies Grant Program enables the purchase of equipment and supplies for high schools and middle schools in the Commonwealth in order to train students in life sciences technology and research, as well as addresses a funding gap in capital dollars for public and not-for-profit workforce training and educational institutions. The program also seeks to increase student achievement and student interest in STEM (Science, Technology, Engineering and Math), as well as support the implementation of state STEM standards. The following table summarizes active grants in fiscal year 2020 and 2019 under the program:

	Award Amount	Expensed Prior to FY19	Expensed FY19	Expensed FY20	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2020	Remaining payments as of June 30, 2020
FY19 High School Equipment Boston	\$ 395,600	\$ -	\$ 393,416	\$ 2,184	\$ -	\$ -
FY19 High School Equipment Brockton	200,000	-	200,000	-	-	-
FY19 High School Equipment Lawrence	128,823	-	119,894	8,929	-	-
FY19 High School Equipment Lowell	61,717	-	53,715	8,002	-	-
FY19 High School Equipment Springfield	205,994	-	205,994	-	-	-
FY20 High School Equipment Salem	76,932	-	-	764	764	76,932
FY20 High School Equipment Chelsea	100,537	-	-	-	-	100,537
	<u>\$ 1,169,603</u>	<u>\$ -</u>	<u>\$ 973,019</u>	<u>\$ 19,879</u>	<u>\$ 764</u>	<u>\$ 177,469</u>

COVID-19 Response grants: In April 2020, the Board authorized the Center to deploy up to \$5 million from the Center's Capital Funds for capital projects designed to combat the COVID-19 pandemic. The Center committed \$3,109,898 of awards through the Manufacturing Emergency Response Team (M-ERT) program. For the fiscal year ended June 30, 2020, the Center expensed \$1,870,734 of which \$255,562 is not paid and is included in Grants Payable and Accrued Grant Expenses. Remaining payments and commitments under the authorized grants are \$1,494,726 as of June 30, 2020.

Total remaining payments and commitments for all capital program grants as of June 30, 2020 are \$61,216,139, which is contingent upon the Commonwealth fulfilling their funding obligations to the Center.

Facility lease: The Center's operating lease for office space at 1000 Winter Street, Waltham, Massachusetts ended on March 31, 2019, and the Center entered into a five-year non-cancelable operating lease for office space at 1075 Main Street, Waltham, Massachusetts from April 1, 2019, through March 31, 2024. Rent expense under the operating leases was \$354,696 and \$286,054 for the years ended June 30, 2020 and 2019, respectively.

As of June 30, future minimum lease payments under all operating lease agreements are approximately:

2021	\$ 354,692
2022	354,692
2023	354,692
2024	266,019
	<u>\$ 1,330,095</u>

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

Notes to Financial Statements

Note 8. Subsequent Events

Management has evaluated subsequent events through September 24, 2020.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets, including geographical area in which the Center operates. Management is continually monitoring the potential impact of the pandemic on the Center.

**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***

Board of Directors
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, 2020, 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 24, 2020. Our report contained a qualified opinion related to the Center not having recognized or disclosed any values associated with unexercised warrants or conversion feature on associate loans 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 24, 2020