Office of Performance Management & Oversight
Fiscal 2012 Annual Report

The Office of Performance Management & Oversight (OPMO) measures the performance of all public and quasi-public entities engaged in economic development. All agencies are required to submit an Annual Report. The annual reports of each agency will be published on the official website of the Commonwealth, and be electronically submitted to the clerks of the senate and house of representatives, the chairs of the house and senate committees on ways and means and the house and senate chairs of the joint committee on economic development and emerging technologies.

1) Agency Information

Agency Name:	Massachusetts Development Finance Agency		
Agency Head:	Marty Jones	**Title:**	President and CEO
Website:	www.massdevelopment.com		
Address:	160 Federal Street, 7th Floor, Boston, MA 02110		

2) Mission Statement

Please include the Mission Statement for your organization below.

MassDevelopment's mission is to stimulate economic development and industrial growth, increase employment, build communities, promote prosperity and general welfare, and eradicate blight across the Commonwealth.

3) Operations and Accomplishment Details

Please provide details on the agency's operations and accomplishments for Fiscal Year 2012 as **Attachment A.** Questions 5 through 10 will provide guidance on the type of information required under Chapter 240 of the Acts of 2010.

Please see previously submitted FY12 Annual Performance Report for information on achievement of goals laid out in the Agency's FY12 Business Plan.

4) ACCOUNTING

Please provide financial information for your agency. Below please give a summary of *Receipts and Expenditures* during the fiscal year, and include the *Assets and Liabilities* at the end of the fiscal year. Please include the most recent audited financial report for the agency as **Attachment B**.

	AMOUNT
Receipts	**$76,948,741**[1]
Expenditures	**$77,935,009**[1]
Assets	**$642,325,386**
Liabilities	**$225,009,494**

[1]Operating revenue and operating expenditures only. Does not include non-operating receipts and disbursements.

NOTE: Summary information above is unaudited. Agency outside auditor has not yet signed off on FY12 audited financial statement.

5) INVESTMENTS OR GRANTS TO BUSINESSES OR INDIVIDUALS

Does your agency make **investments** and/or provide **grants** to businesses or individuals? **Yes** ☒ **No** ☐

If **Yes**, please provide detailed information on investments and/or grants made during FY12 in the Operations and Accomplishments Section of this report. Information should include the number, nature and amounts of investments made and grants awarded by your agency along with job, investment and/or other economic development impact. Please list the name(s) of the investment and/or grant programs offered by your agency in the space provided below:

Finance Programs

Bond Financing

MassDevelopment's bond financing programs offer a cost-effective way to finance real estate and equipment needed to meet the Commonwealth's economic development goals. MassDevelopment offers tax-exempt and taxable bonds; pool loans; value leases; and the capital financing 501 program.

Loans & Guarantees

MassDevelopment's lending programs offer borrowers access to capital to complete a wide range of projects to meet the Commonwealth's economic development goals. MassDevelopment offers predevelopment loans, real estate loans, equipment loans, mortgage insurance guarantees, green loans, and the USDA loan guarantee program.

Tax Credit Financing

MassDevelopment works with project proponents to determine tax credit financing eligibility for economic development efforts. Specific tax credit programs provide incentives to eligible businesses, nonprofits, and developers. MassDevelopment offers 4% Federal Low Income Housing Tax Credits and the New Markets Tax Credit Program.

Specialty Programs

MassDevelopment administers specialty loan and grant programs to support economic development. We offer financial and program assistance through the Brownfields Redevelopment Fund, Charter School Loan Guarantees, Community Service 501(c)(3) Loan Fund, Cultural Facilities Fund, Emerging Technology Fund, Exporter Financing, Gloucester Revolving Loan Fund, Small Farm Loan Program, Southeast Regional Loan Fund, Star Fund, Community Health Center grant program and the TechDollars program.

6) Debt or Equity Investment Details

Is your agency involved in **debt** or **equity investments** for businesses? **Yes** ☒ **No** ☐

If **Yes**, please provide detailed information on debt and/or equity investments made during FY12 in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the name(s) of the debt and/or equity investments programs offered by your agency in the space provided below:

See Sections 7 and 8.

7) Loan Details

Is your agency involved in **real estate loans**, **working capital loans**, or any **other type of loan** or **guarantee**? **Yes** ☒ **No** ☐

If **Yes**, please provide detailed information on loan(s) and/or guarantee(s) made during FY12 in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the types of loan(s) and/or guarantee(s) offered by your agency in the space provided below:

Lending

MassDevelopment's lending programs include Predevelopment Loans, Real Estate Loans, Equipment Loans, Mortgage Insurance Guarantees, Green Loan Program, USDA Loan Guarantee Program, Charter School Loan Guarantees, Community Service 501(c)(3) Loan Fund, Emerging Technology Fund, Exporter Financing, Gloucester Revolving Loan Fund, Small Farm Loan Program, Southeast Regional Loan Fund, Star Fund, and TechDollars.

8) OTHER FORMS OF FINANCING OR FINANCIAL ASSISTANCE?

If your agency provides any other form of financing or financial assistance please include FY12 details in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the types of other forms of financing offered by your agency in the space provided below:

Bond Financing
MassDevelopment's bond financing programs offer a cost-effective way to finance real estate and equipment need to meet the Commonwealth's economic development goals. MassDevelopment bond financing programs include tax-exempt and taxable bonds, as well as capital financing 501, pool loans and the value lease program.

Specialty Programs
In addition to bond and lending finance programs, MassDevelopment offers specialized programs offering financing assistance to economic development projects. These specialized programs include the New Market Tax Credit program, the Brownfields Redevelopment Fund, Community Service grants, Cultural Facilities Fund grants (in partnership with the Massachusetts Cultural Council), and the Advanced Manufacturing Futures Program (new in FY2013).

9) PATENTS OR PRODUCTS

Does your agency track **patents** or **products** resulting from agency-funded activities? **Yes** ☐ **No** ☒
If **Yes**, please include details in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the agency-funded activities of your agency that promote patent and product advancement in the space provided below:

N/A

10) TECHNICAL ASSISTANCE

If your agency provides technical assistance, please provide detailed information on technical assistance provided during FY12 in the Operations and Accomplishments Section of this report along with job, investment and/or other economic development impact. Please list the name(s) of the technical assistance programs offered by your agency in the space provided below:

In addition to bond and lending finance programs, MassDevelopment provides a range of services and support through its real estate division. This division manages properties, oversees surplus public property redevelopments, and provides technical assistance to municipalities for a range of economic development efforts. MassDevelopment technical assistance services include project management, site planning, market feasibility analysis, financial analysis, brownfields remediation management, funding identification/application/administration, RFP development/process management, developer selection, contract negotiation, selection and management of consultants
site assembly management, strategic analysis and consensus building, property management oversight and technical assistance for expedited permitting (MGL C. 43D).

PLEASE NOTE:

THE FISCAL YEAR 2013 ANNUAL REPORT WILL REQUIRE DETAILS OF ABOVE MENTIONED CATEGORIES AS WELL AS PERFORMANCE TO PLAN AS OUTLINED IN YOUR AGENCY'S FISCAL 2013 BUSINESS PLAN. THE OFFICE OF PERFORMANCE MANAGEMENT AND OVERSIGHT WILL ANNUALLY RE-EVALUATE THE GOALS AND MEASURES ESTABLISHED BY THE AGENCIES. THE OFFICE WILL RECOMMEND CHANGES TO GOALS AND MEASURES AS ARE APPROPRIATE TO ALIGN WITH THE STATEWIDE ECONOMIC DEVELOPMENT POLICY AND PLAN.

FILING INSTRUCTIONS:

THE FISCAL YEAR 2012 REPORT IS DUE NO LATER THAN MONDAY, OCTOBER 1ST. AN ELECTRONIC COPY OF THE REPORT AND ATTACHMENTS A & B SHOULD BE E-MAILED TO ROB.ANDERSON@STATE.MA.US. THE OFFICE OF PERFORMANCE MANAGEMENT AND OVERSIGHT WILL REVIEW REPORTS PRIOR TO FILING WITH LEGISLATURE AND POSTING TO THE WEBSITE.

Massachusetts Development Finance Agency

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

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Report of Independent Auditors

To the Board of Directors and Management of
Massachusetts Development Finance Agency

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

The consolidated financial statements give retroactive effect to the merger of Massachusetts Health and Educational Facilities Authority with Massachusetts Development Finance Agency on October 1, 2010 in a transaction accounted for as a pooling of interests, as described in Notes 1 and 19. We previously audited and reported on the consolidated balance sheet and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows of Massachusetts Development Finance Agency as of and for the year ended June 30, 2010, prior to their restatement for the 2011 pooling of interests. The contribution of Massachusetts Health and Educational Facilities Authority to Massachusetts Development Finance Agency of assets, revenues and changes in net assets represented 4 percent, 6 percent, and 7 percent of the respective restated totals as of June 30, 2010. Separate financial statements for Massachusetts Health and Educational Facilities Authority included in the 2010 restated consolidated balance sheet and the related restated consolidated statements of revenues, expenses and net assets and of cash flows were audited and reported on separately by other auditors. We also audited the combination of the accompanying consolidated balance sheet and the related statements of revenues, expenses and net assets and of cash flows as of and for the year ended June 30, 2010, after restatement for the 2011 pooling of interests. In our opinion, such consolidated statements have been properly combined on the basis described in Notes 1 and 19 of the consolidated financial statements.

PricewaterhouseCoopers LLP, 125 High Street, Boston, MA 02110
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Management's Discussion and Analysis on pages 3 through 26 is not required as part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist primarily of inquiries of management regarding methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

This report is intended solely for the information and use of the Board of Directors and management of Massachusetts Development Finance Agency and the Commonwealth of Massachusetts and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

October 21, 2011

Massachusetts Development Finance Agency
Management's Discussion and Analysis
(unaudited)

As management of the Massachusetts Development Finance Agency (the "Agency"), we offer the readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal years ended June 30, 2011, 2010 and 2009. This discussion and analysis should be read in conjunction with the financial statements and notes thereto, which follow this section. Unless otherwise indicated, years (2011, 2010 and 2009) in this discussion refer to the fiscal year ended June 30.

Massachusetts Development Finance Agency was created on September 30, 1998 pursuant to chapter 23G of Massachusetts General Laws (Chapter 289 of the Acts of 1998). The Agency is a body corporate and politic and a public instrumentality and was created from the statutory merger of, and is the legal successor in all respects to, two previous existing instrumentalities, the Massachusetts Government Land Bank (created in 1975 under Chapter 212 of the Acts of 1975) and the Massachusetts Industrial Finance Agency (created in 1978 pursuant to Chapter 23A of the Massachusetts General Laws). Other powers of the Agency are also set forth in Massachusetts General Laws chapter 40D (with respect to the issuance of tax-exempt bonds) and Chapter 498 of the acts of 1993, as amended (with respect to the redevelopment of the former Fort Devens, a former federal military base). The purpose of the Agency is to stimulate economic growth, increase employment, eradicate blight, promote prosperity and help build communities throughout the Commonwealth of Massachusetts (the "Commonwealth"). It does this through its powers to issue tax-exempt bonds for the benefit of certain industrial and commercial entities, institutions, health care and housing facilities and public bodies; making loans and providing credit to eligible borrowers in accordance with its public purpose; and aiding public and private enterprises in the redevelopment of surplus federal and state property and other blighted, open, underdeveloped, decadent property and exercising such other powers consistent with its enabling legislation or as granted to it by the legislature. It also administers specific statutory funds directed at certain economic development needs in the Commonwealth, such as the Massachusetts Export Finance Fund, the Emerging Technology Fund, Cultural Facilities Fund and the Brownfields Redevelopment Fund. The Agency also has the power to issue debt for the redevelopment of the former Fort Devens ("Devens").

The Agency is governed by a twelve member Board of Directors, nine of whom are appointed directly by the governor and two of whom are public officials, or their designees, serving ex-officio. The Agency is considered a component unit of the Commonwealth for general-purpose financial statement reporting purposes.

In 2000, the Commonwealth enacted special legislation, Chapter 237 of the Act of 2000 of the Commonwealth (the "Project Legislation") which authorized the Agency to design and redevelop the office building located at 100 Cambridge Street, which is located in Boston's Financial District. This legislation created the MassDevelopment/Saltonstall Building Redevelopment Corporation ("M/SBRC" or the "100 Cambridge Street Project"). M/SBRC has entered into a 50 year ground lease with the Commonwealth, which includes an option to extend for two 15 year extensions. M/SBRC completed the redevelopment of the existing building structure, created residential and retail units, expanded garage parking and renovated the Saltonstall Plaza.

In 2002, the Agency became the managing member in Hospital Hill LLC (the "LLC"). The Agency has a 73.099% participating interest in the LLC. The LLC was formed to acquire and redevelop the former office/light industrial space, mixed use space and retail space and, approximately 300 housing units consisting of both multi-family housing units and single family houses of which approximately 60-80 units will be considered assisted living units.

The Agency, via subsidiary entities, MassDevelopment New Markets LLC ("MDNM") and Mass HEFA New Markets CDE LLC ("HEFA CDE"), was awarded the right to allocate federal New Markets Tax Credits on $176 million and $66 million, respectively, of its investors' investments. Investment opportunities have been made available to banks, corporations, partnerships and funds that invest in MDNM and HEFA CDE; the proceeds of their investments will be reinvested in business and commercial development in low-income census tracts. As of June 30, 2011, the Agency had closed on twelve such transactions.

On August 5, 2010, the Commonwealth of Massachusetts passed the Senate No. 2582 Act which is an act relative to the economic development reorganization within the Commonwealth of Massachusetts. The bill included legislation which required the merger of the Agency with the Massachusetts Health and Economic Finance Authority ("HEFA") effective October 1, 2010. The Agency's Board of Directors became the governing Board of HEFA effective with the signing of the Act. As a result of the merger, fiscal year 2011 and all prior periods presented in the financial statements have been restated based on the pooling of interest method applied by the Agency. Under the pooling of interest method, the Agency and HEFA are required to be consolidated as of the beginning of the fiscal year in which the merger takes place and all prior periods presented are restated as if the entities were consolidated during those periods.

Using the Consolidated Financial Statements

The Massachusetts Development Finance Agency's annual report includes three basic financial statements: the Consolidated Balance Sheets, the Consolidated Statements of Revenues, Expenses and Changes in Net Assets and the Consolidated Statements of Cash Flows. The basic financial statements are prepared on an accrual basis in accordance with the accounting principles generally accepted in the United States of America ("GAAP"), as promulgated by the Governmental Accounting Standards Board (GASB).

The Balance Sheet reports assets, liabilities and the difference between them as net assets. Net assets represent the residual interest in the Agency's assets after liabilities are deducted and consist of three sections: invested in capital assets, net of related debt; restricted net assets and unrestricted net assets.

The net asset component invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and deferred financing costs, net of accumulated amortization, less the outstanding balances of any outstanding debt that is attributable to the acquisition, construction or improvements of those assets. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Agency's restricted net assets are expendable. All other net assets are unrestricted.

Revenues and expenses are categorized as either operating or non-operating based upon management's definition of the Agency's principal ongoing operations.

Financial Highlights

- Agency assets exceed liabilities by $437.0 million as of June 30, 2011. The Agency's net assets decreased from $484.8 million at June 30, 2009 to $466.2 million at June 30, 2010 and to $437.0 million at June 30, 2011. The decrease in net assets of approximately $29.2 million during 2011 was a combination of increased operating income mainly due to increased bond issuance and New Markets Tax Credit fees, offset by decreased revenue related to contributions from the Commonwealth and capital grant revenue and increased grant awards disbursed during the fiscal year.

  The decrease in net assets of approximately $18.6 million during 2010 was a combination of an increased operating loss due to increased maintenance and utilities expenses, depreciation and amortization and impairment loss and loss on share of joint ventures. In addition, there were decreased contributions from the Commonwealth and capital grant revenue recognized during the fiscal year. There were also additional grants disbursed to the Commonwealth of Massachusetts and the Rose Fitzgerald Kennedy Greenway Conservancy.

- For the years ended June 30, 2011, 2010 and 2009, the decrease in net assets of 100 Cambridge Street was approximately $2.8 million, $3.2 million and $5.5 million, respectively, as detailed below:

	2011	2010	2009
Operating revenues	$ 21,677,657	$ 21,585,614	$ 21,049,701
Gain on sale of fixed assets	-	-	9,767
Operating expenses	(9,520,969)	(9,731,281)	(9,648,791)
Depreciation and amortization	(4,373,951)	(4,408,052)	(4,484,608)
Amortization of bond discount	(105,931)	(105,931)	(354,238)
Amortization of deferred financing costs	(582,528)	(557,193)	(1,981,759)
Interest income	777,176	785,298	1,001,130
Interest expense	(10,676,249)	(10,801,720)	(11,073,475)
Decrease in net deficiency	$ (2,804,795)	$ (3,233,265)	$ (5,482,273)

M/SBRC began building operations on January 26, 2004 when the Commonwealth took occupancy. In 2011, lease income accounted for approximately $21.7 million, of which approximately $9.2 million was from the Commonwealth of Massachusetts. Ground lease expenses, of approximately $2.5 million were included in the $9.5 million of operating expenses.

Major construction on the 100 Cambridge Street Project was completed as of June 30, 2005. Tenant improvement work related to both office and retail space was completed during fiscal years 2008 and 2007. Two parking spaces remain to be sold as of June 30, 2011 with carrying values of $40,000 each. Rentable retail and office space is 100% leased as of June 30, 2011.

In accordance with the terms of a Mortgage and Trust Agreement between M/SBRC and National Public Finance Guarantee Corporation, the bond insurer, all operating expenses of the project are to be paid from project revenues or, if necessary, from certain project reserves, starting with the Project Reserve Fund which totaled $5.0 million at June 30, 2011. The Agency is not obligated to fund any operating deficiencies incurred by M/SBRC.

As of June 30, 2011 and 2010, in accordance with GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments,* $16.0 million and $18.2 million, respectively, deferred outflow interest rate swap has been recognized as a long term asset and represents the deferral of possible payments related to the unrealized negative market value of the Swap contract with Lehman Brothers Special Financing, Inc. There is an offsetting $16.0 million and $18.2 million, respectively, deferred interest rate swap long term liability which represents the unrealized negative market value of the Swap contract.

- In 2002, the Agency became the managing member of Hospital Hill LLC (the "LLC"). The Agency accounts for its $17.0 million investment under the equity method. For the year ending June 30, 2011, the Agency recognized $7,102 of its share of net gain related to the LLC. The Agency also contributed $551,098 to the LLC for operating expenses and capital improvements and received disbursements of $614,111 from the sales proceeds for three lot/land sales at Hospital Hill. Projections related to the investment as of June 30, 2011, show that it is not probable that the current investment balance plus additional contributions required to complete the project will be recoverable from distributions from future sales; therefore, the Agency also recognized a $2.0 million impairment loss in fiscal year 2011 to write the investment down to the amount expected to be recovered through its net cash flow from the project. The total impairment recognized on this equity investment to date is $3.5M.

- During fiscal years 2008, 2007 and 2004, the Agency received $15.0 million, $10.0 million and $24.8 million, respectively, from the Commonwealth for the Emerging Technology Fund II ("ETF II"), which was recorded as a contribution from the Commonwealth in the related consolidated financial statements. Such funds are restricted to be used to make qualifying loans and investments designed to stimulate financing for new manufacturing, research and development and related facilities in the Commonwealth by leveraging private funding. As of June 30, 2011 and 2010, $10.1 million and $9.9 million, of ETF II loans were outstanding, respectively. During fiscal year 2011, the Agency disbursed $15.0 million from the ETF II Fund to the Massachusetts Growth Capital Corporation as directed in legislation by the Commonwealth of Massachusetts.

- The Agency received $10.0 million of grant funds from the Department of Education in 2005 ("Charter School Grant"). As of June 30, 2009, all the Charter School Grant funds had been recognized into capital grant revenue. The grant funds will act as a guarantee fund to support loans issued by a third party's eligible charter school projects.

- The Agency holds an investment that is currently in a liquidation process which carries a market value of $1.8 million and a reserve of $1.4 million, for a net carrying value of $426,507 as of June 30, 2011. This net amount is included in noncurrent investments as of June 30, 2011. The

Agency received $517,170 of cash disbursements from this investment during the fiscal year, for total cash disbursements on this investment of $1,552,222.

- The Agency purchased a building in Springfield, Massachusetts ("1550 Main Street") in September 2009 for a purchase price of $2.5 million. Approximately $6.0 million of redevelopment work has been done on the building to date and is included as a component of capital assets as of June 30, 2011. The major redevelopment projects included replacement of elevators, renovation of restrooms, replacement of public plaza and significant renovations to the building's storefront and public atrium. The Agency recognized approximately $1.5 million of capital grant revenue associated with the redevelopment projects during the fiscal year. The full grant amount of $3.0 million has been recognized to date. The building is 100% leased as of June 30, 2011.

- The Agency recognized $1.7 million in contributions from the Commonwealth in the fiscal year 2011. These funds are either recognized as revenue immediately upon receipt if all eligible criteria are met or recognized as revenue as related program expenditures are incurred. The table below shows how such funds were recognized in the Agency's financial statements during fiscal year 2011:

	Funds Received		Funds Recognized FY2011
	FY2011	FY2010	Contributions from the Commonwealth
43-D Expedited Permitting Fund	$ -	$ -	$ 79,296
Otis Air National Guard	50,189	115,982	139,213
Devens Fund	1,237,328	2,602,445	1,488,968
	$ 1,287,517	$ 2,718,427	$ 1,707,477

- Capital grant revenue recognized in fiscal year 2011 of approximately $1.7 million was mainly comprised of approximately $1.5 million for infrastructure improvements at 1550 Main Street in Springfield, Massachusetts.

- The Agency awarded approximately $2.5 million of Predevelopment and Brownfield grant awards during fiscal year 2011. The Agency's Predevelopment and Brownfield receivable, net, had a balance of $1.5 million as of June 30, 2011. The Agency wrote off Predevelopment and Brownfield loans receivable of $139,375, with reserves of $117,252, for a net write-off of $22,123, during fiscal year 2011.

- The Agency awarded approximately $7.2 million of Cultural Facilities grant awards during fiscal year 2011. These grant awards are issued to a cultural facility and are to be used for the acquisition, design, construction, repair, renovation, rehabilitation or other capital improvements related to the cultural facility.

- The Agency awarded $3.0 million to the Massachusetts Cultural Council from the General Fund to assist with the Council's operating expenses during fiscal year 2011.

- The Commonwealth of Massachusetts grant awards of $850,000 relates to $480,000, $320,000 and $50,000 disbursed to the Commonwealth's Massachusetts Permit Regulatory Office, Office of Small Business and Entrepeneurship, and to the Massachusetts Marketing Product, respectively, to help offset budget cuts for fiscal year 2011.

- The Agency, via subsidiary entities, MassDevelopment New Markets LLC ("MDNM") and Mass HEFA New Markets CDE LLC ("HEFA CDE"), was awarded the right to allocate federal New Markets Tax Credits on $176 million and $66 million, respectively, of its investors' investments. Investment opportunities have been made available to banks, corporations, partnerships and funds that invest in MDNM and HEFA CDE; the proceeds of their investments will be reinvested in business and commercial development in low-income census tracts. During the fiscal year, the Agency closed on five new transactions resulting in $2.7 million of organizational fee income at the time of the closings. As of June 30, 2011, the Agency had closed on a total twelve such transactions.

- On September 15, 2008 Lehman Brothers Holding Inc. ("Lehman") filed for bankruptcy. M/SBRC's Series 2002B debt has an interest rate swap contract (the "Swap") with Lehman Brothers Special Financing, Inc., a subsidiary of Lehman, which also filed for bankruptcy on October 3, 2008. The Agency has continued to make all appropriate payments to Lehman in accordance with the Swap contract. The Agency is continuing to research an appropriate plan of action. The final outcome and impact of this matter is currently unknown.

- On May 1, 2011, the Agency changed investment advisors from Bank of New York Mellon to PFM Asset Management, LLC. All investments that were being held by Bank of New York Mellon were transferred to the new custodian, U.S. Bank.

- On July 15, 2010, PowerOptions, a subsidiary of HEFA, voted to amend its bylaws and change it from being a member corporation to a non-member corporation, and reduce the number of PowerOptions trustees who were Agency members from four to one. As a result, effective July 15, 2010, the Agency no longer controlled PowerOptions. A $1.3 million loss from separation was recognized in the fiscal year as of that date.

Cash, Cash Equivalents and Investments

	2011	2010 (As Restated)	2009 (As Restated)
Current			
Cash and cash equivalents	$ 14,558,669	$ 30,435,143	$ 26,135,421
Cash and cash equivalents-restricted for use	21,832,289	15,009,882	11,333,650
Short term investments	138,089,323	173,954,730	190,790,722
	174,480,281	219,399,755	228,259,793
Noncurrent			
Cash and cash equivalents for capital use	9,655,708	10,038,322	11,687,376
Cash and cash equivalents-restricted for use	14,809,345	15,212,004	15,227,437
Long term investments	66,484,671	47,124,392	59,591,817
	90,949,724	72,374,718	86,506,630
Total	$ 265,430,005	$ 291,774,473	$ 314,766,423

The decrease of $26.3 million in cash, cash equivalents and investments from 2010 to 2011 is mainly due to a decrease of $16.5 million in short term and long term investments due to decreases in custodial investments of approximately $12.0 million in the ETF II Fund and $8.0 million in the Cultural Facilities Fund. The decrease in the ETF II Fund investments is due to the grant disbursement of $15.0 million to the Massachusetts Growth Capital Corporation as directed by legislation from the Commonwealth. The Cultural Facilities Fund investment decrease is due to additional grant awards issued during the fiscal year. Current cash and cash equivalents, including restricted for use, decreased approximately $9.0 million from 2010 to 2011 due to decreases in the General Fund and Short-Term Asset Reserve Fund ("Star Fund") cash accounts. The General Fund decrease is due to operational needs and grant funding and the Star Fund decrease is due to transfers to investment accounts during the fiscal year.

The decrease of $23.0 million in cash, cash equivalents and investments from 2009 to 2010 is mainly due to a decrease of $29.3 million in short term and long term investments due to decreases in custodial investments of approximately $12.5 million in the General Fund, $7.6 million in the Cultural Facilities Fund and $6.6 million in the Devens Fund. The decrease in the General Fund investments is comprised of additional grant disbursements to the Commonwealth of Massachusetts and the Conservancy, along with increased loan disbursements during the fiscal year. The Cultural Facilities Fund investment decrease is due to additional grant awards issued during the fiscal year. The decrease in the Devens Fund investments is mainly due to infrastructure improvement projects at Devens during the fiscal year.

The Agency is also the administrator of the STAR Fund. The STAR Fund is a fiduciary investment fund that is managed like a money market fund that invests in short-term, high-quality securities and is available for the investment of bond proceeds of the Agency's client institutions. PFM Asset Management, LLC ("PFM") is the STAR Fund's investment advisor. The STAR Fund is designed to preserve principal, provide daily liquidity, and earn a high level of income. The Agency's portion of Star Fund holdings on the Consolidated Balance Sheet as of June 30, 2011 and 2010, were approximately $11.3 million and $15.8 million, respectively.

The majority of the 100 Cambridge Street and Electric System Utility bond proceeds are held with the trustee at Deutsche Bank Trust Company Americas. The Agency's investments are held with PFM as the Agency's investment advisor. The Agency's operating accounts are held with TD Bank. The Agency's cash, cash equivalents and investments are generally recorded at fair value and consist of guaranteed investment contracts, certificates of deposit, demand deposits, money market mutual funds, Star Fund, corporate and government obligations and equity investments.

Loans Receivable, Net

	2011	2010	2009
Current loans receivable, net	$ 9,618,774	$ 12,779,078	$ 11,471,561
Noncurrent loans receivable, net	71,213,013	69,472,760	73,163,218
Total	$ 80,831,787	$ 82,251,838	$ 84,634,779

Loans receivable consist of loans issued by the Agency (net of the allowance for loan loss) primarily for the following economic development program types:

- Business loans
- Construction loans
- Permanent real estate mortgages
- Equipment loans
- Development loans
- Emerging Technology
- Brownfields Redevelopment loans
- Export financing

As of June 30, 2011, there were $72.8 million of loans receivable, net, within the General Fund and $8.0 million of loans receivable, net, within restricted funds.

Net loans receivable decreased $1.4 million in 2011 and $2.4 million in 2010. The decreases in the fiscal years are due to more loan repayments as compared to loan disbursements. In fiscal years 2011 and 2010 there were approximately $16.0 million and $25.1 million in loan disbursements, respectively, and $16.4 million and $27.5 million in loan repayments, respectively.

Interest receivable relative to loans receivable, net, totaled approximately $1.8 million and $1.3 million at June 30, 2011 and 2010, respectively.

Accounts Receivable and Other Assets

	2011	2010 (As Restated)	2009 (As Restated)
Current			
Accounts receivable and other assets, net	$ 8,430,452	$ 10,284,120	$ 13,514,277
Due from the Commonwealth of Massachusetts	429,148	360,865	1,497,200
Interest in life insurance contract	307,067	-	-
Project escrow deposits	2,294,374	4,499,767	5,477,839
	$ 11,461,041	$ 15,144,752	$ 20,489,316
Noncurrent			
Project development fee receivable-due from the Commonwealth of Massachusetts	$ 4,330,001	$ 4,430,522	$ 4,531,044
Interest in life insurance contract	-	303,930	292,996
Deferred outflow interest rate swap	15,972,927	18,216,010	14,855,842
Predevelopment and Brownfield receivable, net	1,508,331	1,225,620	1,062,254
	$ 21,811,259	$ 24,176,082	$ 20,742,136

Current accounts receivable and other assets include the following at June 30, 2011, 2010 and 2009:

- $3.8 million,$4.5 million and $4.5 million, respectively, for utility usage at Devens.
- $196,000, $1.5 million and $1.5 million, respectively, for capital grants.
- $1.4 million, $475,000 and $146,000, respectively, for New Markets Tax Credit company management fees and reimbursement of expenses.
- $2.9 million, $3.7 million and $2.8 million, respectively, for Devens municipal fees, real estate consulting services, lease receivables from 100 Cambridge Street and Kerr Mill, prepaid insurance and other miscellaneous receivables.

Amounts due from the Commonwealth of approximately $429,000 and $360,000 at June 30, 2011 and 2010, respectively, represent $252,000 and $177,000 for capital expenditures at Devens and $177,000 and $183,000 for the debt service on the $13.7 million Massachusetts Department of Environmental Protection loan issued to build the wastewater treatment plant at Devens.

Other assets includes a $307,000 and $304,000 interest in a life insurance contract as of June 30, 2011 and 2010, respectively. The Agency holds a collateral assignment on a whole life insurance contract as security for amounts advanced to a former HEFA executive. The interest in the life insurance contract matures on June 30, 2012.

Project escrow amounts represent cash collected from mortgagees for future escrow payments.

At June 30, 2011 and 2010, project development fees receivable-due from the Commonwealth of Massachusetts represent a $4.3 million and $4.4 million fee due from the Commonwealth associated with the 100 Cambridge Street Project, respectively. In 2004, the Agency began amortizing this development fee over the life of the Commonwealth Ground Lease, which is 50 years.

In accordance with GASB 53, the $16.0 million, $18.2 million and $14.9 million deferred outflow interest rate swap represents the deferral of possible payments related to the unrealized negative market value of the M/SBRC swap contract with Lehman Brothers Special Financing, Inc. as of June 30, 2011, 2010 and 2009, respectively.

Predevelopment and Brownfield receivable, net represent the amount of outstanding awards, net of provision, as of the end of the fiscal year. The increase of $283,000 from 2010 to 2011 consists of $753,000 of advances, net of provision, offset by $435,000 of repayments, $14,000 of expense and $22,000 of write-offs, net of provision. The increase of $163,000 from 2009 to 2010 consists of $383,000 of advances net of provision, offset by $147,000 of repayments, $50,000 of expense and $22,000 of write-offs, net of provision.

Financing Cost, Deferred Expenses, and Capital Assets

	2011	2010 (As Restated)	2009 (As Restated)
Current			
Assets held for sale	$ 138,840	$ 138,840	$ 138,840
Noncurrent			
Financing costs, net	7,355,141	7,987,090	8,571,702
Deferred expenses, net	2,004,156	2,238,973	2,316,194
Capital assets, net	247,567,718	255,291,787	245,737,130
	$ 257,065,855	$ 265,656,690	$ 256,763,866

Financing costs, deferred expenses, and capital assets decreased $8.6 million from 2010 to 2011 and increased $8.9 million from 2009 to 2010. The decrease in fiscal year 2011 is mainly related to depreciation expense during the fiscal year, offset by an increase in capital assets related to construction at 1550 Main Street and utility infrastructure improvements at Devens. The increase in fiscal year 2010 is mainly related to an increase in capital assets, net, due to the purchase of 1550 Main Street in Springfield, Massachusetts and increased utility infrastructure improvements at Devens. This increase is offset by a decrease in financing costs, net, due to amortization expense for the year.

During fiscal year 2010, the Agency purchased a building in Springfield, Massachusetts ("1550 Main Street") in September 2009 for a purchase price of $2.5 million. Redevelopment work on the building of approximately $6.0 million took place during fiscal years 2011 and 2010 and is included as a component of capital assets, net as of June 30, 2011. The major redevelopment projects included replacement of elevators, renovation of restrooms, replacement of public plaza and significant renovations to the building's storefront and public atrium.

As of June 30, 2011, $80,000 remains in assets held for sale, which represents the cost of the 2 remaining parking spaces to be sold at 100 Cambridge Street Project. The remaining amounts in assets held for sale are related to properties located in Devens.

Financing costs represent bond financing expenses associated with the Electric System Utility bonds and the M/SBRC Redevelopment Revenue bonds. The decrease of $632,000 and $579,000 from 2010 to 2011 and 2009 to 2010, respectively, is related to amortization expense for the fiscal years.

Deferred expenses represent tenant related expenses for broker commissions and legal and accounting fees. The decrease of $235,000 from 2010 to 2011 is a combination of $108,000 additional broker commissions and legal fees paid during the year related to 100 Cambridge Street, offset by $343,000 of amortization expense for 2011. The decrease of $77,000 from 2009 to 2010 is a combination of $229,000 additional broker commissions paid during the fiscal year related to 100 Cambridge Street and 1550 Main Street, offset by $306,000 of amortization expense for 2010.

Investment in Joint Ventures

	2011	2010 (As Restated)	2009 (As Restated)
Investment in joint ventures	$ 17,519,290	$19,567,774	$ 22,198,395

Investment in joint ventures includes the Agency's equity investments in two real estate entities (Hospital Hill, LLC and Cape Ann Fisheries Development Corporation) and fourteen NMTC entities as of June 30, 2011. The decrease of $2.0 million from 2010 to 2011 is mainly the combination of $551,000 additional capital contributions, offset by $2.0 million impairment loss and $614,000 in distributions related to the Hospital Hill LLC investment. The decrease of $2.6 million from 2009 to 2010 is mainly the combination of $2.4 million additional capital contributions, offset by $1.0 million impairment loss, $2.0 million in distributions and $2.0 million in share of loss on the investment related to Hospital Hill LLC.

Liabilities

	2011	2010 (As Restated)	2009 (As Restated)
Current			
Accounts payable and accrued expenses	$ 7,195,142	$ 12,724,672	$ 14,068,762
Accrued interest payable	2,753,043	2,771,081	4,780,434
Project escrow payable	2,308,696	4,509,470	5,502,012
Conduit grant payable	-	-	499,215
	$ 12,256,881	$ 20,005,223	$ 24,850,423
Noncurrent			
Deferred revenue and other liabilities	$ 1,869,908	$ 4,005,823	$ 2,834,872
Deferred interest rate swap	15,972,927	18,216,010	14,855,842
	$ 17,842,835	$ 22,221,833	$ 17,690,714

Accounts payable and accrued expenses decreased $5.5 million from 2010 to 2011 mainly due to decreases in electric utility accruals, construction related accruals and M/SBRC ground rent accruals at year end. There were no accruals of ground rent as of June 30, 2011, as payments were made during the fiscal year as excess cash flow was available. The decrease of $1.3 million from 2009 to 2010 was mainly due to decreases of $2.5 million in M/SBRC accrued ground rent and decreased year end accruals as of June 2010 as compared to June 2009. These decreases are offset by increases in accruals of $787,000 for a 1550 Main Street tenant improvement payment and $695,000 in utility accruals for June 2010.

Accrued interest payable relates to accrued interest associated with the Electric System Utility bonds, Massachusetts Water Abatement Trust Loan and the M/SBRC Redevelopment Revenue bonds as of the end of the fiscal year. The decrease of $2.0 million from 2009 to 2010 is due to the fact that the M/SBRC Swap interest being withheld from Lehman due to its bankruptcy, as of June 30, 2009, was paid during fiscal year 2010.

Project escrow payable represents future escrow payments to be made by the Agency on behalf of mortgagees.

During fiscal year 2010, the final payment of the conduit grant payable was made to BMS for reimbursement of construction expenses associated with the construction of a new wastewater pretreatment facility.

Deferred revenue and other liabilities mainly consists of pool loan fees, Devens recreation fees, gains on sale of real estate, NMTC closing fees and rent. The decrease of $2.1 million from 2010 to 2011 is mainly related to the recognition of $1.3 million in deferred HEFA NMTC closing fees into fee income and $495,000 gain on sale of the Davis Library at Devens both recognized during the fiscal year. The Agency's policy in relation to the recognition of sub-allocation fees received at the closings of NMTC entities differs from that of HEFA's policy, which was to defer the fees. As a result of the merger, the deferred fees were recognized into income to be consistent with the Agency's policy. The increase of $1.2 million from 2009 to 2010 is due to the deferral of the Davis Library gain on sale in fiscal year 2010 and the receipt of a refund of excess funds in a pool loan transaction which closed in January 2010.

In accordance with GASB 53, the $16.0 million, $18.2 million and $14.9 million deferred interest rate swap represents the unrealized negative market value of the M/SBRC swap contract with Lehman Brothers Special Financing, Inc. as of June 30, 2011, 2010 and 2009, respectively.

Bonds Payable

	2011	2010	2009
Current			
Bonds payable	$ 1,245,000	$ 2,185,000	$ 1,625,000
Noncurrent			
Bonds payable	172,645,917	173,778,906	175,851,895
	$ 173,890,917	$ 175,963,906	$177,476,895

The following itemizes the bonds payable on the books of the Agency at the end of the fiscal years 2011, 2010 and 2009:

	2011	2010	2009
M/SBRC Redevelopment Revenue bonds	$ 166,810,000	$ 168,760,000	$170,160,000
Devens Electric System Utility bonds	8,775,000	9,010,000	9,235,000
Net premium	15,665	16,854	18,044
Net discount	(1,709,748)	(1,822,948)	(1,936,149)
	$ 173,890,917	$ 175,963,906	$177,476,895

Bonds payable decreased $2.1 million from 2010 to 2011 and $1.5 million from 2009 to 2010, respectively, mainly due to $1.9 million and $235,000 and $1.4 million and $225,000 principal payments related to the M/SBRC Redevelopment Revenue bonds and Devens Electric System Utility bonds, respectively.

The Agency did not issue any new debt in fiscal years 2011, 2010 and 2009.

M/SBRC Redevelopment Revenue Bonds
The Agency issued $195.8 million of revenue bonds in May of 2002 to finance the 100 Cambridge Street Project. The bond proceeds are subject to a mortgage and trust agreement dated April 1, 2002 between the Agency, M/SBRC and the Trustees and, as such, may only be expended on costs of constructing the Project. In addition, revenues generated through rents and asset sales are restricted as to use under the trust agreement.

The mortgage and trust agreement required the establishment of specific reserve funds including the Redemption Fund, Replacement Reserve Fund, Project Reserve Fund and Debt Service Reserve Fund. As of June 30, 2011, the balances in these funds were $0.0 million, $0.7 million, $5.0 million and $13.3 million, respectively. As of June 30, 2010, the balances in these funds were $0.0 million, $0.6 million, $5.0 million and $13.3 million, respectively. As of June 30, 2009, the balances in these funds were $0.0 million, $0.8 million, $5.0 million and $13.3 million, respectively. The Redemption Fund was used to redeem the Series 2002C bonds in July 2008.

The M/SBRC Redevelopment Revenue Bonds agreement provides for, among other requirements, the maintenance of a minimum senior debt service coverage ratio and certain other covenants. As of June 30, 2011, 2010 and 2009, the necessary debt service coverage ratio was met.

On June 5, 2008, Standard and Poor's downgraded the M/SBRC bond insurer, MBIA, from a AAA rating to a AA rating. Subsequently, on June 19, 2008, Moody's downgraded MBIA to a rating of A. As a result of the MBIA downgrades, M/SBRC's Bond Series 2002C bond auction failed, causing the interest rate to increase. On June 20, 2008, as a result of the increased interest expense, the Trustee was notified to redeem the Series 2002C bond. On July 24, 2008 the Series 2002C bond was redeemed in the amount of $20.5 million.

Devens Electric System Utility Bond
During the fiscal year 2001, the Agency issued Electric System Revenue Bonds, Series 2001 for the Devens project which totaled $10.6 Million. The Agency acquired the electric transmission and distribution facilities (the "Electric System") serving Devens from the Army in 1996. The Electric System includes four transmission substations that interconnect Devens with the regional transmission system serving New England, as well as electric distribution facilities serving the area within Devens. The Series 2001 Bonds were used to finance the design, construction, installation and associated costs of certain capital improvements to the Electric Systems at Devens. The Series 2001 Bonds are collateralized by a pledge of the Electric System's Revenues and certain funds and accounts, including the Debt Service Reserve Fund, established under the resolution. Initial capital improvements to the Electric System were completed during the fiscal year 2004. Additional capital improvements to the Electric System have been made over recent fiscal years.

At June 30, 2011 and 2010, the Capital Upgrade Reserve Fund, Revenue Fund, and Rate Stabilization Reserve Fund had balances of $3.8 million, $5.3 million and $3.3 million and $4.6 million, $5.0 million and $3.3 million, respectively. As of June 30, 2009, the balances in these funds were $5.0 million, $8.0 million and $2.7 million, respectively. The Capital Upgrade Reserve Fund may be used to fund capital improvements to the Electric System. In fiscal years 2011 and 2010, approximately $811,000 and $3.4 million was used from the Capital Upgrade Reserve Fund for electrical infrastructure improvements at Devens. In fiscal year 2009, $3.9 million was transferred into the Capital Upgrade Reserve Fund due to excess funds in the Revenue Fund. All revenues generated by the Electric System, not including interest income, shall be deposited into the Revenue Fund. Funds are transferred from the Revenue Fund to other funds of the Electric System according to the bond resolution agreement. The Rate Stabilization Reserve Fund may be used to fund operating expenses of the Electric System when there are not sufficient funds available from operations. The Rate Stabilization Fund was not used in fiscal years 2011 or 2010 or 2009.

The Agency may transfer funds from the Capital Upgrade Reserve Fund to the Revenue Fund. Excess balances in the Revenue Fund may be transferred to the Agency, free and clear of the lien of the bond resolution, if all funding requirements are met and the debt service coverage requirement has been met cumulatively during the twelve consecutive months prior to the transfer date.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default as long as the Agency complies with specific requirements included in the agreement. The debt service coverage ratio is calculated on a cash basis. As of June 30, 2011, 2010 and 2009, the necessary debt service coverage was met.

Advances from the Commonwealth of Massachusetts

	2011	2010	2009
Current			
Advances from The Commonwealth of Massachusetts	$ 420,736	$ 408,437	$ 394,707
Noncurrent			
Advances from The Commonwealth of Massachusetts	15,110,614	15,531,350	15,939,787
	$ 15,531,350	$ 15,939,787	$ 16,334,494

Advances from the Commonwealth of Massachusetts consists of the following at the end of fiscal years 2011, 2010 and 2009:

	2011	2010	2009
Massachusetts Water Abatement Trust Loan	$ 11,781,350	$12,189,787	$12,584,494
Commonwealth Advance for Devens Municipal Services	3,750,000	3,750,000	3,750,000
	$ 15,531,350	$ 15,939,787	$ 16,334,494

Massachusetts Water Abatement Trust Loan

The Massachusetts Water Abatement Trust issued a loan to the Agency to construct a wastewater treatment facility at Devens. This loan will be paid back to the trust through revenues generated from wastewater usage at Devens and surrounding communities. The Agency and the Commonwealth have entered into a contract providing that the Commonwealth shall pay contract assistance on behalf of the Agency with respect to partial debt service on this loan.

The Massachusetts Water Abatement Trust Loan agreement requires the maintenance of an adequate annual debt service coverage ratio. Failure to comply with the annual debt service coverage ratio does not constitute a default, as long as the Agency complies with specific requirements included in the agreement. The debt service coverage ratio is calculated on a cash basis. As of June 30, 2011, 2010 and 2009, the necessary debt service coverage was met.

Commonwealth Advance for Devens Municipal Services
In 1997, the Agency received a one-time advance from the Commonwealth of $3.8 million for administration and provision of municipal services at Devens.

Net Assets

Net assets represent the residual interest in the Agency's assets after all liabilities are deducted. The Agency's net assets were as follows at June 30:

	2011	2010 (As Restated)	2009 (As Restated)
Invested in capital assets, net of debt	$ 81,616,676	$ 87,490,224	$ 77,170,675
Restricted net assets	162,459,144	199,251,783	214,285,729
Unrestricted net assets	192,879,720	179,427,158	193,350,118
	$ 436,955,540	$466,169,165	$ 484,806,522

The decrease in net assets of approximately $29.1 million from 2010 to 2011 is comprised mainly of $10.2 million interest expense, $15.0 million grant to the Massachusetts Growth Capital Corporation, $7.2 million Cultural Facilities grant awards and $3.0 million grant to the Massachusetts Cultural Council, offset by $5.8 million operating gain mainly due to increased bond issuance and New Markets Tax Credit fees, $1.9 million investment income, $1.7 million contributions from the Commonwealth and $1.7 million capital grant revenue.

The decrease in net assets of approximately $17.6 million from 2009 to 2010 is comprised of a $4.2 million operating loss mainly due to increased maintenance and utility expenses due to increased electric utility purchases, $10.4 million of interest expense, $3.1 million of grants to the Commonwealth of Massachusetts and $7.4 million Cultural Facilities grant awards, offset by $2.4 million in investment income and $6.2 million capital grant revenue.

Revenues and Expenses

	2011	2010 (As Restated)	2009 (As Restated)
Operating revenues	$ 92,498,325	$ 81,159,417	$78,398,676
Operating expenses	(86,698,950)	(85,404,677)	(78,695,625)
Operating loss	5,799,375	(4,245,260)	(296,949)
Nonoperating revenues, net	(8,595,222)	(7,734,190)	(6,635,326)
Capital contributions, net	(26,417,778)	(6,657,907)	25,717,360
Increase in net assets	$ (29,213,625)	$ (18,637,357)	$18,785,085

Operating Revenues

	2011	2010 (As Restated)	2009 (As Restated)
Devens operating fees	$ 42,802,316	$ 41,302,528	$ 40,448,652
Supplier and member revenue	93,535	1,608,354	1,499,352
Interest on loans	5,265,693	5,880,103	5,086,841
Bond issuance and New Markets Tax Credit fees	17,920,629	8,013,640	8,477,802
Other operating income	4,097,028	2,769,178	1,819,136
Gains on sale of real estate, net	641,467	-	17,192
Rent and other M/SBRC income	21,677,657	21,585,614	21,049,701
	$ 92,498,325	$ 81,159,417	$ 78,398,676

Devens Operating Fees

Devens operating fees increased $1.5 million from 2010 to 2011 primarily due to increased real estate taxes and gas income, offset by decreased electric income. The increase in real estate taxes is due to an increased valuation assessment due to the decertification of the tax increment financing agreement. The increase in gas income is due to increased customer usage during the fiscal year and the decrease in electric income is due to decreased customer usage during the fiscal year due to the loss of a large customer. Devens operating fees increased $0.8 million from 2009 to 2010 primarily due to increased customer usage for all utilities and increased water and wastewater rates, offset by decreased electric rates. Devens generates income from leasing activities, municipal service fees, utility income, recreation fees, fines and permits.

Devens operating fees, which includes utility income, represents the majority of the Agency's operating revenue. The Agency owns the utility systems at Devens and provides electricity, natural gas, water and sewer services to the Devens community. The utility staff works in conjunction with operations and maintenance contractors to maintain, upgrade and expand the utility systems. The current systems consist of five electrical substations, approximately 73 miles of distribution power lines, three miles of transmission power lines, four wells and pumping stations, approximately 50 miles of water line, 32 miles of natural gas pipeline, a wastewater treatment facility, six sewer lift stations and 50 miles of sewer. The construction of an additional electrical substation and approximately four miles of power lines was completed during fiscal year 2010.

Supplier and Member Revenue
Supplier and member revenue represents revenue from annual supplier service contracts as well as annual membership fees through the Agency's energy purchasing consortium, PowerOptions. PowerOptions was designed to assist nonprofit organizations, cities, towns and other governmental entities navigate the web of energy deregulation via education and negotiation of competitive pricing and supply contracts for electricity and natural gas.

On July 15, 2010, PowerOptions, a subsidiary of HEFA, voted to amend its bylaws and change it from being a member corporation to a non-member corporation, and reduce the number of PowerOptions trustees who were Agency members from four to one. As a result, effective July 15, 2010, the Agency no longer controlled PowerOptions. As a result of the deconsolidation of this entity only one month of supplier and member revenue is included for fiscal year 2011.

Interest on Loans
Interest income on loans decreased approximately $0.6 million from 2010 to 2011 and increased $0.8 million from 2009 to 2010. The decrease in fiscal year 2011 is due to loan payoffs in the General Fund loans portfolio. The increase in fiscal year 2010 is due to the increase of outstanding loans receivable for General Fund loans.

Bond Issuance and New Markets Tax Credit Fees
Bond issuance fees and New Markets Tax Credit fees represent revenue generated by the Agency as a conduit issuer of taxable and tax-exempt bonds or fees related to the allocation of federal New Markets Tax Credits. Fees increased $9.9 million from 2010 to 2011 mainly due to $4.0 million of sub-allocation fees received by the Agency at the closing of five new New Markets Tax Credit entities during the fiscal year and the recognition of HEFA deferred New Markets Tax Credit closing fees, along with $6.9 million of increased bond issuance fees. Fees decreased $0.5 million from 2009 to 2010 primarily due to a combination of decreased bond issuance fees, offset by increased management fees and sub-allocation fees from the New Markets Tax Credit entities.

Other Operating Income
Other operating income consists mainly of real estate advisory service fees and lease income for leased property at Fall River and Springfield. The increase of $1.3 million from 2010 to 2011 was mainly due to increased lease income at Springfield due to increased occupancy. The increase of approximately $950,000 from 2009 to 2010 is a combination of increased lease income for the Springfield building purchased during fiscal year 2010 and increased real estate advisory service fees for the 43D Expedited Permitting program.

Gains on Sale of Real Estate, Net
The gains on sale of real estate of $641,467 in fiscal year 2011 consists of approximately $446,000 related to the recognition of the Davis Library sale, $250,000 in reduced cost of sale recognized in a previous fiscal year related to perrmitting fees that are no longer required to be paid, offset by a loss of approximately $55,000 related to the sale of two lots at Devens, MA.

There were no sales of real estate in fiscal year 2010.

The gains on sale of real estate of $17,192 in fiscal year 2009 consists of $7,425 gain on sale related to the recognition of the deferred gain for the land sale to Bristol Meyers Squibb and $9,767 gain on sale of one parking space at 100 Cambridge Street.

Rent and Other M/SBRC Income
During fiscal years 2011 and 2010, the 100 Cambridge Street Project earned $21.7 million and $21.6 million, respectively, from the leased office tower occupancy, retail revenue, and allocated parking spaces. Rent and Other M/SBRC Income was mainly consistent from 2010 to 2011. The slight increase of approximately $92,000 is due to mainly to increased transient garage income during the fiscal year. The increase of $0.5 million from 2009 to 2010 is due to increased revenue collections for private office rent, private operating income and retail rent, offset by decreases in transient garage income and real estate tax reimbursements.

Operating Expenses

	2011	2010 (As Restated)	2009 (As Restated)
Salaries and related employee expenses	$ 17,793,598	$ 19,724,388	$ 19,055,871
Property, maintenance and utilities	37,582,399	37,166,476	32,719,164
General and administrative	8,460,084	6,902,250	6,898,880
Professional and legal fees	5,655,384	7,037,037	6,509,409
Provision for loan loss	1,102,317	(49,920)	2,007,416
Provision for Predevelopment and Brownfield receivables	58,104	365,933	1,475,186
Write-off of Predevelopment and Brownfield receivables	22,123	22,150	23,769
Depreciation and amortization	12,690,858	11,269,877	9,856,437
Impairment loss on joint ventures	2,000,000	1,000,000	-
Loss on separation of PowerOptions	1,341,464	-	-
(Gain)/loss on share of joint ventures	(7,381)	1,966,486	149,493
	$ 86,698,950	$ 85,404,677	$ 78,695,625

Salaries and Related Employee Expenses
Salaries and related employee expenses decreased approximately $1.9 million from 2010 to 2011 due to decreases in salary, health insurance and retirement contributions all due to decreased headcount. The increase of approximately $0.7 million from 2009 to 2010 was mainly due to a $0.5 million incentive accrual reversal in fiscal year 2009. Incentives were not paid out during fiscal year 2009 as was anticipated by the 2008 accrual, and was, therefore, reversed in 2009.

Property, Maintenance and Utilities
Property, maintenance and utilities increased approximately $416,000 from 2010 to 2011 mainly due to increased utilities expenses at Kerr Mill and 1550 Main Street. The increase of $4.4 million in 2010 is mainly due to increased utility purchases for Devens customers, as well as M/SBRC and Kerr Mill.

General and Administrative
General and administrative expenses increased approximately $1.6 million from 2010 to 2011 mainly due to an increase in bad debt expense (refer to Note 22 - Legal Matters). Real estate tax income for Devens increased for fiscal year 2011 due to an increased valuation assessment as a result of the decertification of the tax increment financing agreement. The Agency has fully reserved for this increased assessment due to the related company's recent bankruptcy. General and administrative expenses were consistent from 2009 to 2010.

Professional and Legal Fees
Professional and legal fees include expenses for education costs at Devens, project related expenses, legal fees paid to outside counsel and miscellaneous professional services. These fees decreased approximately $1.4 million from 2010 to 2011 mainly due to decreased investment management fees, project related expenses, public relations expenses and marketing expenses. These fees increased approximately $528,000 from 2009 to 2010 primarily due to increased project related expenses related to a proposed public safety building. Due diligence planning and permitting expenses were reclassified from construction in progress to project expense during fiscal year 2010 as this particular building is not going to be developed.

The Agency has established a school system through an agreement with the Town of Harvard to educate the children of families residing in Devens. There are two contracts with the Town of Harvard, one for grades 6 through 12 and one for grades pre-kindergarten through 5. These contracts originally expire June 30, 2011 and June 30, 2012, respectively. The contracts automatically renew for additional terms of one school calendar year after the initial term. In fiscal year 2011 and 2010, the Agency paid approximately $1.0 million and $947,000, respectively, for education costs.

Provision for (Recovery of) Loan Loss
Provision for loan loss represents the expense necessary to maintain an adequate allowance for loan losses. The provision increased approximately $1.1 million from 2010 to 2011 mainly due to increases in the loan loss reserves for General Fund loans as a result of some increased risk ratings on outstanding loans. The provision decreased $2.1 million from 2009 to 2010 primarily due to a combination of increases in the loan loss reserves for General Fund loans, with an offsetting recovery of loan loss reserves for ETF loans. The ETF loans represent loans to emerging technology companies with a lack of company history and financial uncertainty, therefore these loans require a higher provision at the time of issuance.

Total allowance for loan losses totaled $13.8 million and $13.0 million as of June 30, 2011 and 2010, respectively Of this, the ETF allowance for loan losses comprised $5.3 million and $5.5 million, respectively.

The provision for (recovery of) loan loss is comprised of:

	2011	2010	2009
ETF loans	$ (227,077)	$ (1,616,886)	$ 479,467
Other loans	1,329,394	1,566,966	1,527,949
	$ 1,102,317	$ (49,920)	$ 2,007,416

In determining the allowance, the Agency evaluates each loan and considers past performance history, collateral value, and financial stability of the borrower and such other factors as deemed necessary. The loan portfolio and the Agency's loan loss rating system are evaluated each year by management and an independent outside consultant who evaluates the reasonableness of the rating system.

Provision for (Recovery of) and Write-Off of Predevelopment and Brownfield Receivables
The provision for (recovery of) Predevelopment and Brownfield receivables represents the allowance necessary to absorb possible losses of existing awards that may become uncollectible. The write-off of Predevelopment and Brownfield receivables represents the write-off of loans receivable the Agency has deemed uncollectible.

	2011	2010	2009
Predevelopment receivable	$ (36,388)	$ (11,309)	$ (6,568)
Brownfield receivable	116,615	399,392	1,505,523
	$ 80,227	$ 388,083	$ 1,498,955

In fiscal year 2011, the Agency wrote off Predevelopment and Brownfield loans of approximately $139,000, with reserves of $117,000, for a net write-off of $22,000. The provision expense for 2011 was approximately $58,000.

In fiscal year 2010, the Agency wrote off Predevelopment and Brownfield loans of approximately $184,000, with reserves of $162,000, for a net write-off of $22,000. The provision expense for 2010 was approximately $366,000.

The Agency believes that the estimated total cumulative provision is adequate to absorb any uncollectible receivables.

Depreciation and Amortization

	2011	2010 (As Restated)	2009 (As Restated)
Depreciation expense	$ 12,347,418	$10,957,770	$ 9,552,545
Amortization expense	343,440	312,107	303,892
	$ 12,690,858	$11,269,877	$ 9,856,437

The increase in depreciation expense of approximately $1.4 million in 2011 is mainly due to the capitalization of 1550 Main Street capital assets since construction was completed during the fiscal year. The increase in depreciation expense of approximately $1.4 million in 2010 is mainly due to increased capital utility infrastructure projects during the fiscal years.

Impairment loss on Joint Ventures
Impairment loss on joint ventures represents a $2.0 million and $1.0 million impairment loss recognized on the Agency's investment in Hospital Hill LLC in fiscal year 2011 and 2010, respectively. Projections related to the investment as of June 30, 2011 and 2010, show that it is not probable that the current investment balance will be recoverable from distributions from future sales. Therefore, the Agency recognized a $2.0 million and $1.0 million impairment loss in fiscal years 2011and 2010, respectively, to write the investment down to the amount expected to be recovered through its net cash flow from the project. No impairment loss was taken in fiscal year 2009.

Loss on Separation of PowerOptions

On July 15, 2010, PowerOptions, a subsidiary of HEFA, voted to amend its bylaws and change it from being a member corporation to a non-member corporation, and reduce the number of PowerOptions trustees who were Agency members from four to one. As a result, effective July 15, 2010, the Agency no longer controlled PowerOptions. As a result of the deconsolidation, a $1.3 million loss from separation was recognized in fiscal year 2011.

(Gain)/Loss on Share of Joint Ventures

(Gain)/loss on share of joint ventures represents the Agency's share of (gain)/loss on its investments carried on the equity method of accounting. The Agency holds equity investments in Cape Ann Fisheries Corporation, Hospital Hill LLC and fourteen New Markets Tax Credit companies. The (gain)/loss on share of joint ventures is mainly related to the investment in Hospital Hill LLC.

Non-operating (Expenses) Revenues

	2011	2010 (As Restated)	2009 (As Restated)
Investment income	$ 1,902,649	$ 2,427,112	$ 5,806,593
Contract assistance	464,159	471,678	472,403
Interest expense	(10,215,089)	(10,375,652)	(10,666,222)
Amortization of bond discount, net	(113,201)	(113,201)	(361,508)
Amortization of deferred financing costs	(631,949)	(578,872)	(2,003,438)
Other income	(1,791)	434,745	116,846
	$ (8,595,222)	$ (7,734,190)	$ (6,635,326)

Investment income

Investment income decreased approximately $524,000 and $3.4 million in fiscal years 2011 and 2010. The decrease is mainly due to significantly lower interest rates earned on investments during the fiscal years.

Contract Assistance

Contract assistance represents the debt service for the $13.7 million Massachusetts Department of Environmental Protection loan to build a wastewater treatment plant at Devens ("DEP loan"). The debt services payments are made by the Commonwealth directly and are recognized as non-operating income by the Agency.

Interest Expense

Interest expense of $10.2 million, $10.4 million, and $10.7 million was recognized in 2011, 2010 and 2009, respectively, as described in the table below:

	2011	2010 (As Restated)	2009 (As Restated)
M/SBRC Redevelopment Revenue Bonds	$ 9,076,246	$ 9,181,609	$ 9,460,470
Electric System Utility Bonds	521,241	533,028	544,175
Water Abatement Trust	618,570	639,157	646,322
Miscellaneous	(968)	21,858	15,255
	$ 10,215,089	$ 10,375,652	$ 10,666,222

Interest expense includes interest for: the M/SBRC Redevelopment Revenue bonds issued to fund construction expenses for the 100 Cambridge Street Project, Electric System Utility bonds issued for the acquisition of the electric transmission and distribution facility at Devens, and for the Massachusetts Water Abatement Trust for the wastewater treatment plant at Devens.

Amortization of Deferred Financing Costs
Amortization of deferred financing costs relate to the amortization of financing costs associated with the issuance of the Electric System Utility bonds and the M/SBRC Redevelopment Revenue bonds. The financing costs are amortized over the life of the bonds using the effective interest rate method. The increase in amortization in fiscal year 2009 is due to the write-off of the financing fees associated with the M/SBRC Redevelopment Revenue Series 2002C bond redemption in July 2008.

Other Income
Other non-operating income of $435,000 in fiscal year 2010 is mainly related to reimbursable 43D Expedited Permitting expenses. Other non-operating income of $117,000 in fiscal year 2009 is mainly comprised of a $21,000 reimbursement for accounting and administrative services provided to another agency, $65,000 related to an interest and late fee charge on delinquent municipal services fees and $16,000 in engineering fees.

Capital Contributions

	2011	2010 (As Restated)	2009 (As Restated)
Contributions from The Commonwealth of Massachusetts	$ 1,707,477	$ 2,911,714	$ 34,847,015
Capital grant revenue	1,713,113	6,211,786	10,627,706
Predevelopment and Brownfield awards	(2,548,951)	(1,876,674)	(1,518,698)
Loan guarantee expense	(66,829)	-	-
Cultural Facilities grant awards	(7,210,644)	(7,370,594)	(9,456,912)
Massachusetts Growth Capital Corporation grant award	(15,000,000)	-	-
Massachusetts Cultural Council grant award	(3,000,000)	-	-
The Commonwealth of Massachusetts grant awards	(850,000)	(3,115,990)	(3,076,556)
Rose Fitzgerald Kennedy Greenway Conservancy grant award	-	(1,000,080)	(999,920)
Capital grant awards	(1,161,944)	(2,418,069)	(4,705,275)
	$(26,417,778)	$ (6,657,907)	$ 25,717,360

Contributions from the Commonwealth of Massachusetts
Contributions from the Commonwealth of Massachusetts of $1.7 million and $2.9 million were recognized in fiscal years 2011 and 2010. This is mainly comprised of $1.5 million and $2.8 million, respectively, for the Devens Fund for capital infrastructure improvements at Devens and $139,000 and $116,000, respectively, for Otis Air National Guard expense reimbursements.

Contributions of $34.8 million were recognized in fiscal year 2009 which were mainly comprised of $19.4 million for the Devens Fund and $14.2 million for the Cultural Facilities Fund.

Capital Grant Revenue
Capital grant revenue of $1.7 million was recognized in fiscal year 2011. This was mainly comprised of $1.5 million of grant reimbursements for 1550 Main Street.

Capital grant revenue of $6.2 million was recognized in fiscal year 2010. This was mainly related to grant reimbursements of $3.3 million at Devens, $1.3 million at Springfield and $1.3 million at Hospital Hill for capital infrastructure improvements. Capital grant revenue of $10.6 million was recognized in fiscal year 2009 which was consisted of $7.3 million for utility infrastructure improvements at Devens, $2.0 million recognition of a Charter School loan guarantee and $716,000 for infrastructure improvements at Hospital Hill.

Predevelopment and Brownfield Awards
The Agency issued $2.5 million, $1.9 million and $1.5 million in Predevelopment and Brownfield non-recoverable grant awards during fiscal years 2011, 2010 and 2009, respectively. The changes each year reflect increases or decreases in grant awards for those fiscal years.

Cultural Facilities Grant Awards
The Agency issued $7.2 million, $7.4 million and $9.5 million of Cultural Facilities non-recoverable grant awards during fiscal years 2011, 2010 and 2009, respectively. The changes each year reflect increases or decreases in grant awards for those fiscal years.

Massachusetts Growth Capital Corporation Grant Award
The Agency disbursed $15.0 million to the Massachusetts Growth Capital Corporation, per legislation by the Commonwealth of Massachusetts, from the ETF II Fund during fiscal year 2011.

Massachusetts Cultural Council Grant Award
The Agency disbursed $3.0 million to the Massachusetts Cultural Council from the Cultural Facilities Fund in order to assist with the Council's operating expenses for fiscal year 2011.

The Commonwealth of Massachusetts Grant Awards
The Commonwealth of Massachusetts grant awards of $850,000 in fiscal year 2011 is comprised of $480,000 disbursed to the Massachusetts Permit Regulatory Office, $320,000 disbursed to the Commonwealth's Office of Small Business and Entrepeneurship and $50,000 disbursed to the Massachusetts Marketing Product.

The Commonwealth of Massachusetts grant awards of $3.1 million in fiscal year 2010 is comprised of $1.4 million, $1.2 million and $500,000 disbursed to the Commonwealth's Office of Small Business and Entrepeneurship, Commonwealth's Chapter 43D program and to the Western Massachusetts Enterprise Fund, respectively, to help offset budget cuts for fiscal year 2010.

The Commonwealth of Massachusetts grant awards of $3.1 million in fiscal year 2009 relates to $635,000 and $2.4 million disbursed to the Commonwealth's Office of Small Business and Entrepeneurship and to the Commonwealth's Chapter 43D program, respectively, to help offset the budget cuts for fiscal year 2009. The Agency agreed to commit $4.5 million to the Commonwealth for these two programs.

The Rose Fitzgerald Kennedy Greenway Conservancy Grant Award
The Rose Fitzgerald Kennedy Greenway Conservancy total grant award of $2.0 million was disbursed to the Conservancy, $1.0 million each in fiscal years 2010 and 2009, in order to assist with the operation, management and maintenance of the Rose Kennedy Greenway.

Capital Grant Awards
The Agency disbursed \$1.2 million, \$2.4 million and \$4.7 million of capital grant awards during fiscal years 2011, 2010 and 2009, respectively. Capital grant awards are grants awarded for capital purposes by the Agency from the General Fund, Cultural Facilities Fund or the Charitable Trust during the fiscal year.

The Agency signed a legal agreement with the Commonwealth of Massachusetts in November 2007, under which the Agency will provide a \$10.0 million grant to a company at Devens to reimburse them for direct hard and soft costs related to the construction of its new facility in Devens. As of June 30, 2009 and 2010, the Agency had received reimbursement requests totaling approximately \$9.9 million and \$82,000, respectively for expenses (refer to Note 22 – Legal Matters).

Massachusetts Development Finance Agency
Consolidated Balance Sheets
June 30, 2011 and 2010

		2011		2010 (As Restated)
Assets				
Current assets				
Cash and cash equivalents	$	14,558,669	$	30,435,143
Cash and cash equivalents-restricted for use		21,832,289		15,009,882
Short-term investments		138,089,323		173,954,730
Loans receivable, net		9,618,774		12,779,078
Interest receivable		2,358,286		1,728,305
Accounts receivable and other assets (net of allowance of $2,500,799 and $609,128 at June 30, 2011 and 2010, respectively)		8,430,452		10,284,120
Interest in life insurance contract		307,067		-
Due from the Commonwealth of Massachusetts		429,148		360,865
Project escrow deposits		2,294,374		4,499,767
Assets held for sale		138,840		138,840
Total current assets		198,057,222		249,190,730
Noncurrent assets				
Cash and cash equivalents for capital use		9,655,708		10,038,322
Cash and cash equivalents-restricted for use		14,809,345		15,212,004
Interest in life insurance contract		-		303,930
Investments		66,484,671		47,124,392
Investment in joint ventures		17,519,290		19,567,774
Project development fees receivable-due from the Commonwealth of Massachusetts		4,330,001		4,430,522
Loans receivable, net		71,213,013		69,472,760
Deferred outflow interest rate swap		15,972,927		18,216,010
Predevelopment and Brownfield receivable, net		1,508,331		1,225,620
Financing costs (net of accumulated amortization of $5,985,794 and $5,353,845 at June 30, 2011 and 2010, respectively)		7,355,141		7,987,090
Deferred expenses (net of accumulated amortization of $1,880,053 and $1,536,613 at June 30, 2011 and 2010, respectively)		2,004,156		2,238,973
Capital assets, net		247,567,718		255,291,787
Total noncurrent assets		458,420,301		451,109,184
Total assets	$	656,477,523	$	700,299,914
Liabilities and Net Assets				
Current Liabilities				
Accounts payable and accrued expenses	$	7,195,142	$	12,724,672
Current portion of bonds payable		1,245,000		2,185,000
Advances from the Commonwealth of Massachusetts		420,736		408,437
Accrued interest payable		2,753,043		2,771,081
Project escrow payable		2,308,696		4,509,470
Total current liabilities		13,922,617		22,598,660
Noncurrent liabilities				
Bonds payable		172,645,917		173,778,906
Advances from the Commonwealth of Massachusetts		15,110,614		15,531,350
Deferred interest rate swap		15,972,927		18,216,010
Deferred revenue and other liabilities		1,869,908		4,005,823
Total noncurrent liabilities		205,599,366		211,532,089
Total liabilities		219,521,983		234,130,749
Net assets				
Invested in capital assets, net of debt		81,616,676		87,490,224
Restricted net assets		162,459,144		199,251,783
Unrestricted net assets		192,879,720		179,427,158
Total net assets		436,955,540		466,169,165
Total liabilities and net assets	$	656,477,523	$	700,299,914

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

Massachusetts Development Finance Agency
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	2011	2010 (As Restated)
Revenues		
Operating revenues		
Devens operating fees	$ 42,802,316	$ 41,302,528
Supplier and member revenue	93,535	1,608,354
Interest on loans	5,265,693	5,880,103
Bond issuance and New Markets Tax Credit fees	17,920,629	8,013,640
Other operating income	4,097,028	2,769,178
Gains on sale of real estate, net	641,467	-
Rent and other M/SBRC income	21,677,657	21,585,614
Total operating revenues	92,498,325	81,159,417
Expenses		
Operating expenses		
Salaries and related employee expenses	17,793,598	19,724,388
Property, maintenance and utilities	37,582,399	37,166,476
General and administrative	8,460,084	6,902,250
Professional and legal fees	5,655,384	7,037,037
Provision/(credit) for loan loss	1,102,317	(49,920)
Provision for Predevelopment and Brownfield receivable	58,104	365,933
Write-off of Predevelopment and Brownfield receivable, net	22,123	22,150
Depreciation and amortization	12,690,858	11,269,877
Impairment loss on joint ventures	2,000,000	1,000,000
Loss on separation of Power Options	1,341,464	-
(Gain)/loss on share of joint ventures	(7,381)	1,966,486
Total operating expenses	86,698,950	85,404,677
Operating gain/(loss)	5,799,375	(4,245,260)
Nonoperating (expenses) revenues		
Investment income	1,902,649	2,427,112
Contract assistance	464,159	471,678
Interest expense	(10,215,089)	(10,375,652)
Amortization of bond discount, net	(113,201)	(113,201)
Amortization of deferred financing costs	(631,949)	(578,872)
Other income	(1,791)	434,745
Nonoperating expenses, net	(8,595,222)	(7,734,190)
Loss before capital contributions	(2,795,847)	(11,979,450)
Contributions from The Commonwealth of Massachusetts	1,707,477	2,911,714
Capital grant revenue	1,713,113	6,211,786
Predevelopment and Brownfield awards	(2,548,951)	(1,876,674)
Loan guarantee expense	(66,829)	-
Cultural Facilities grant awards	(7,210,644)	(7,370,594)
Massachusetts Growth Capital Corporation grant award	(15,000,000)	-
Massachusetts Cultural Council grant award	(3,000,000)	-
The Commonwealth of Massachusetts grant awards	(850,000)	(3,115,990)
Rose Fitzgerald Kennedy Greenway Conservancy grant award	-	(1,000,080)
Capital grant awards	(1,161,944)	(2,418,069)
Decrease in net assets	(29,213,625)	(18,637,357)
Net assets		
Net assets - beginning of year	466,169,165	484,806,522
Net assets - end of year	$ 436,955,540	$ 466,169,165

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

Massachusetts Development Finance Agency
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010 (As Restated)
Cash flows from operating activities		
Receipts from interest on loans	$ 4,785,503	$ 5,635,320
Receipts from Devens operating income	43,161,616	42,448,465
Receipts from supplier and member revenue	390,363	2,766,139
Receipts from bond issuance fees	15,725,095	7,592,946
Receipts from other operating income	4,225,809	2,889,395
Receipts from rent and other income	21,451,999	22,362,609
Payment of salaries and related employees expenses	(17,829,889)	(20,185,596)
Payment of rent, maintenance and utilities	(37,566,162)	(38,166,932)
Payment of general and administration expenses	(11,014,316)	(7,613,514)
Payment of professional and legal fees	(5,688,853)	(7,101,912)
Security deposits	2,243	44,648
Project escrows, asset	2,205,393	978,072
Project escrows, liability	(2,200,774)	(992,542)
Net cash provided by operating activities	17,648,027	10,657,098
Cash flows from noncapital financing activities		
Payment of loan guarantee	(66,829)	-
(Payments)/receipts for other non operating income	(74,553)	490,146
Net cash (used by)/provided noncapital financing activities	(141,382)	490,146
Cash flows from capital and related financing activities		
Acquisition of capital assets	(6,643,819)	(19,936,952)
Payment of deferred expenses	(184,484)	(153,286)
Principal payments on debt obligations	(2,566,304)	(1,999,255)
Proceeds from sale of assets	62,521	525,140
Receipts from federal capital contributions	3,050,084	7,591,814
Payment of conduit grant payable	-	(499,215)
Payment of Predevelopment and Brownfield grant awards	(2,388,796)	(1,876,674)
Payment of Cultural Facilities grant awards	(7,210,644)	(7,370,594)
Payment of Commonwealth of Massachusetts grant awards	(850,000)	(3,115,990)
Payment of Rose Fitzgerald Kennedy Greenway Conservancy grant award	-	(1,000,080)
Payment of Massachusetts Growth Capital Corporation grant award	(15,000,000)	-
Payment of Massachusetts Cultural Council grant award	(3,000,000)	-
Payment of capital grant	(1,161,944)	(2,418,069)
Receipts of contributions from the Commonwealth of Massachusetts	1,554,009	4,026,397
Payment of interest	(9,790,212)	(11,927,946)
Net cash used by capital and related financing activities	(44,129,589)	(38,154,710)
Cash flows from investing activities		
Purchases of investments	(52,519,490)	(64,547,965)
Sales of investments	69,031,468	93,829,418
Investments in joint venture	(698,950)	(2,234,346)
Distributions from joint ventures	614,373	2,038,814
Loss on separation of PowerOptions	(1,341,464)	-
Disbursements of loans	(16,035,473)	(25,062,913)
Collections and recoveries of loans	16,353,207	27,495,774
Payment of Predevelopment and Brownfield receivable	448,310	197,195
Advance of Predevelopment and Brownfield receivable	(811,248)	(748,644)
Receipts of investment income	1,742,871	2,351,600
Net cash provided by investing activities	16,783,604	33,318,933
Net (decreased)/increase in cash and cash equivalents	(9,839,340)	6,311,467
Cash and cash equivalents at beginning of year	70,695,351	64,383,884
Cash and cash equivalents at end of year	$ 60,856,011	$ 70,695,351
Supplemental disclosure of noncash activity		
Contract assistance	$ 464,159	$ 471,678
Investments in joint ventures	-	140,442
Contributions from the Commonwealth	79,296	15,819
Decrease in project development fee receivable	(100,521)	(100,522)
Interest expense	437,024	451,226
Unrealized gain on investments	6,850	522,893
Capital additions included in accounts payable	455,649	2,253,711

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

Massachusetts Development Finance Agency
Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010 (As Restated)
Cash flows from operating activities		
Operating income/(loss)	$ 5,799,375	$ (4,245,260)
Adjustments to reconcile operating income/(loss) to net cash provided by operating activities		
Bad debt	1,950,513	8,159
Depreciation and amortization	12,690,858	11,269,877
Gain on disposal of redeveloped property	(641,467)	-
Provision and write-off for loans and Predevelopment and Brownfield receivable, net	1,182,544	338,163
Loss on share of joint ventures	(7,381)	1,966,486
Impairment loss on joint ventures	2,000,000	1,000,000
Changes in assets and liabilities		
Project escrows - asset	2,205,393	978,072
Security deposits	2,243	44,648
Interest receivable	(480,190)	(244,783)
Accounts receivable and other assets	(1,360,797)	2,031,652
Accounts payable and accrued expenses	(3,233,996)	(2,194,267)
Project escrows - liability	(2,200,774)	(992,542)
Deferred revenue	(258,294)	696,893
Total adjustments	11,848,652	14,902,358
Net cash provided by operating activities	$ 17,648,027	$ 10,657,098

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

1. Authorizing Legislation

Massachusetts Development Finance Agency (the "Agency" or "MDFA") was created on September 30, 1998 pursuant to Chapter 23G of Massachusetts General Laws (Chapter 289 of the Acts of 1998). The Agency is a body corporate and politic instrumentality and was created from the statutory merger of, and is the legal successor in all respects to, two previous existing instrumentalities, the Massachusetts Government Land Bank (created in 1975 under Chapter 212 of the Acts of 1975) and the Massachusetts Industrial Finance Agency (created 1978 pursuant to chapter 23A of the Massachusetts General Laws). Other powers of the Agency are also set forth in Massachusetts General Law's Chapter 40D (with respect to the issuance of tax-exempt bonds) and chapter 498 of the acts of 1993, as amended (with respect to the redevelopment of the former Fort Devens, a closed federal military base). The purpose of the Agency is to stimulate economic growth, increase employment, eradicate blight, promote prosperity and help build communities throughout the Commonwealth of Massachusetts (the "Commonwealth"). It does this through its powers to issue tax-exempt bonds for the benefit of industrial and commercial entities, institutions, health care and housing facilities and public bodies; making loans and providing credit to eligible borrowers in accordance with its public purposes; and aiding public and private enterprises in the redevelopment of surplus federal and state property and other blighted, open, underdeveloped decadent property. It also administers specific statutory funds directed at certain economic development needs in the Commonwealth, such as the Massachusetts Export Finance Fund, the Emerging Technology Fund, the Cultural Facilities Fund and the Brownfields Redevelopment Fund. The Agency also has the power to issue debt for the redevelopment of the former Fort Devens ("Devens").

In 2000, the Commonwealth enacted special legislation, Chapter 237 of the Act of 2000 of the Commonwealth (the "Project Legislation") which authorized the Agency to design and redevelop the office building located at 100 Cambridge Street (the "Project"), which is located in Boston, Massachusetts. This legislation created the Massdevelopment/Saltonstall Building Redevelopment Corporation (the "100 Cambridge Street Project" or "M/SBRC"). M/SBRC has entered into a 50 year ground lease with the Commonwealth, which includes an option to extend for two 15 year periods. Simultaneously, M/SBRC entered into a 50 year office lease with the Commonwealth as lessee, which includes an option to extend for two 15 year periods. As of June 30, 2006, the project was complete.

In 2002, the Agency became a 73.099% participant and the managing member in Hospital Hill LLC (the "LLC"). The LLC was formed to acquire and redevelop the former Northampton State Hospital site in Northampton, Massachusetts. The redevelopment effort focuses on office/light industrial space, mixed use space and retail space, approximately 300 housing units consisting of both multi-family housing units and single-family houses and approximately 60-80 assisted living units.

On August 5, 2010, the Commonwealth of Massachusetts passed the Senate No. 2582 Act which is an act relative to the economic development reorganization within the Commonwealth of Massachusetts. The bill included legislation which required the merger of the Agency with the Massachusetts Health and Economic Finance Authority ("HEFA") effective October 1, 2010. The Agency's Board of Directors became the governing Board of HEFA effective with the signing of the Act. As a result of the merger, fiscal year 2011 and all prior periods presented in the consolidated financial statements have been restated due to the pooling of interest method applied by the Agency. Under the pooling of interest method, the Agency and HEFA are shown as consolidated as of the beginning of the fiscal year in which the merger takes place and all prior periods presented need to be restated as if the entities were consolidated at that time.

The Agency is also the administrator of the Short-Term Asset Reserve Fund ("STAR Fund"). The STAR Fund is an investment fund that is managed like a money market fund that invests in short-term, high-quality securities and is available for the investment of bond proceeds of the Agency's client institutions. The STAR Fund is designed to preserve principal, provide daily liquidity, and earn a high level of income. The STAR Fund operates on a calendar year-end basis and is audited annually. Except for the Agency's investments in the STAR Fund, the accounts and operational results of the STAR Fund are not included in the Agency's consolidated financial statements.

The Agency is governed by an twelve member Board of Directors, nine of whom are appointed directly by the governor and two of whom are public officials, or their designees, serving ex-officio. The Agency is considered a component unit of the Commonwealth for general purpose financial statement reporting purposes.

2. Significant Accounting Policies

Accounting and Reporting Standards

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The GASB establishes standards for external financial reporting for state and local governments and requires that resources be classified into three categories of net assets. Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of: invested in capital assets, net of related debt; restricted and unrestricted, as follows:

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

- **Restricted**
  Nonexpendable – Net assets subject to externally imposed stipulations such that the Agency maintains them permanently. For years ended June 30, 2011 and 2010, the Agency did not have any nonexpendable restricted net assets.

Expendable – Net assets whose use by the Agency is subject to externally imposed stipulations that can be fulfilled by actions of the Agency pursuant to those stipulations or that expire by the passage of time. Such assets included the Agency's bond construction funds on hand.

- **Unrestricted**
  Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board or Directors or may otherwise be limited by contractual agreements with outside parties.

Beginning on July 1, 1995, the Agency elected to apply all Governmental Accounting Standards Board ("GASB") pronouncements and Financial Accounting Standards Board ("FASB") pronouncements issued before November 30, 1989 that do not conflict with GASB pronouncements, under the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities That Use Proprietary Fund Accounting.*

The Agency has defined its primary activities as operating and non-operating. Operating activities consist primarily of activities supporting the economic development mission and purpose of the Agency. Non-operating activities primarily include interest expense, investment income and transactions of a capital nature.

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.

Principles of Consolidation
The consolidated financial statements include the Agency and its wholly-owned subsidiaries. All significant inter-entity transactions and accounts have been eliminated.

Cash and Cash Equivalents
Cash and cash equivalents consist of amounts on hand and highly liquid investments with maturities of three months or less at acquisition. Current cash and cash equivalents consist of unrestricted funds available for general operating purposes and general fund mortgage insurance guarantees. Current restricted cash and cash equivalents consist of available funds for current operations related to the Devens Electric Utility and M/SBRC segments of the Agency. Noncurrent cash and cash equivalents for capital use consist of funds available for future capital improvements. Noncurrent restricted cash and cash equivalents consist of funds available for future debt service payments, project reserves and future operations when there are not sufficient funds available from current operations.

Investments

Investments are reported at market value based on quoted market prices, except for a guaranteed investment contract, which is valued at contract value. Contract value represents contributions made under the contract plus accrued interest. When a quoted market price is not available, the investment is carried at its estimated fair value.

The primary objectives of the Agency's investment policy is to ensure preservation of capital, to grow funds available to meet the expanding needs of lending capital in the Commonwealth of Massachusetts, to ensure liquidity of investments to meet current and estimated cash flow needs by investing in instruments with structured maturities that are readily marketable and to provide maximum yield while maintaining safety and liquidity. The maturities of investments range from less than one year to greater than five years (refer to footnote 4). Investments may include money market funds with maturities of three months or less. These money market funds are classified as investments since they are held for the primary purpose of meeting some of the Agency's investment objectives.

Loans Receivable

Loans receivable consist of loans issued by the Agency for various economic development programs. Loans receivable are stated at principal amount outstanding, net of an allowance for loan loss. The allowance for loan loss is established through a provision for loan losses charged to expense. Loans are charged against the allowance when the Agency believes the collectibility of the principal is unlikely. The allowance is an amount that the Agency believes will be adequate to absorb possible losses of existing loans that may become uncollectible, based on evaluations of the collectibility of loans.

Investment in Joint Ventures

The Agency accounts for its participating interest in its joint ventures using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for the Agency's share of net income or loss and for cash contributions or distributions to and from its joint ventures.

Accounts Receivable and Other Assets

The Agency evaluates the collectibility of leases, utility and other accounts receivable after considering payment history. Although collection efforts continue, the Agency charges off any receivable balance that is deemed unlikely to be collected.

Interest in Life Insurance Contract

The Agency holds a collateral assignment on a whole life insurance contract as security for amounts advanced to a former HEFA executive. The contract matures on June 30, 2012.

Project Escrows

The Agency holds funds consisting of cash and investments as collateral for mortgages receivable and as a source of payment for borrowers' obligations including tax and insurance payments. These amounts are recorded at market value and are held in separate bank accounts under the borrowers' tax identification numbers.

Assets Held for Sale
Certain assets are redeveloped with the intent to ultimately sell the asset to a third party. When such assets are substantially complete and ready for sale, the capitalized investment is reclassified to assets held for sale under current assets.

Financing Costs
Financing costs associated with the issuance of bonds are capitalized and amortized using the effective interest rate method. Amortization expense for the years ended June 30, 2011 and 2010 was $631,949 and $578,872, respectively.

Deferred Expenses
Deferred expenses are tenant related expenses incurred for broker commissions, legal fees and accounting fees and amortized on a straight-line basis over the life of the related lease. Amortization expense for the years ended June 30, 2011 and 2010 was $343,440 and $306,368, respectively.

Interest Capitalization
The Agency may capitalize certain interest associated with borrowed funds for specific projects, less any interest earned on temporary investment of the proceeds of such borrowings during the period of construction. No interest was capitalized during fiscal years 2011 and 2010.

Capital Assets, Net
Development and construction costs accumulate until a project is complete and placed in service. Once placed in service, the costs are reclassified to a capital asset account and then depreciated over the estimated useful life of the asset. Depreciation is provided for equipment on a straight-line basis over the asset's estimated useful life.

Maintenance and repairs are charged to expense when incurred while betterments and additions are capitalized. When assets are sold or retired, their cost and related accumulated depreciation are removed from the Agency's accounts and any gain or loss is recognized.

Accounts Payable and Accrued Expenses
The Agency accrues expenses on a monthly basis based on current contracts and invoices. The Agency accrues amounts for compensated absences as earned up to certain limitations. The accrued balance represents vacation amounts payable to employees upon termination of employment.

Bonds Payable
Bonds are recorded at date of issuance, net of related premium or discount amounts. Bond premiums and discounts are amortized or accreted, respectively, over the term of the related bond and these amounts are recorded as a component of non-operating expense.

Revenue Recognition
Interest income is recognized as earned. For loans receivable with interest payments in arrears, the Agency continues to accrue interest until such time as the mortgage loan agreement is restructured or the interest receivable is deemed to be uncollectible. When mortgages are restructured, interest payments in arrears, net of any amounts deemed uncollectible, are aggregated with the outstanding principal balance and interest is accrued on the new principal balance.

Application and processing fees for both tax exempt and taxable bonds are recorded as bond issuance fee revenue on the date of closing on the bond. Debt servicing fees are recorded as revenue upon receipt. These are fees that are collected for Agency assistance in bond closings.

Organizational fee income for the New Markets Tax Credit programs is recognized as bond issuance fee revenue on the date of the closing of the related New Markets Tax Credit program. This fee is a one-time cost associated with setting up and organizing the program.

Management fee income for the New Markets Tax Credit programs is recorded as services related to managing the operations of the New Markets Tax Credit programs are performed.

Supplier and member revenues are generated from service contracts entered into by PowerOptions with various energy suppliers, and from fees paid by its members for access to the contracts. The contracts require payment of annual fees by the suppliers to PowerOptions. In addition, PowerOptions charges an annual fee to its members. Revenue from annual fees is recognized ratably over the calendar year.

Rental income is recognized as earned.

Guarantee fees received for loans guaranteed by the Agency are deferred and recognized ratably over the term of the guarantee agreement.

Capital grant revenue is recognized depending on the terms of the related grant. The Charter School Grant revenue is recognized as Charter School loan guarantees are issued. The Community Development Action Grant, Economic Development Grants, Growth Districts Initiative Program Grant and the Massachusetts Opportunity Relocation and Expansion Jobs Capital Program Grant revenues are recognized as funds are disbursed for the related grant project.

Contributions from the Commonwealth of Massachusetts are recognized according to the terms of the related agreement. The 43-D Permitting, Otis, Devens Fund and Devens infrastructure improvement disbursements are reimbursement type grants and are recognized as qualifying expenses are incurred.

Devens operating fees consist of fees received for utilities, municipal services and leased space and are recognized as earned.

The Agency accrues monthly principal and interest reimbursements due under its contract with the Commonwealth for debt service payments associated with the Devens Project Bonds and the Massachusetts Department of Environmental Protection loan and records these amounts as contract assistance which is included in non-operating revenue.

Provision for Loan Loss
Provision for loan loss represents the expense necessary to maintain an adequate allowance for estimated loan losses. In determining the provision, the Agency evaluates each loan and considers past performance history, collateral value, financial stability of the borrower and the likelihood for foreclosure and such other factors as deemed necessary. The loan portfolio and the Agency's loan loss rating system are evaluated annually by management and an independent consulting firm.

Provision for Predevelopment and Brownfield Receivable, net
Provision for Predevelopment and Brownfield receivable, net, represents the expense necessary to maintain an adequate allowance for estimated losses of receivables that may become uncollectible.

Impairment Loss on Joint Ventures
Management analyzes its equity method investments to determine whether the amounts are considered to be permanently impaired based upon its best estimates of the cash flows from the investment. If a permanent impairment in carrying value exists, a provision to write down the investment to the estimated cash flows realizable from the investment will be recorded in the Agency's financial statements. For the years ended June 30, 2011 and 2010, the Agency recognized an impairment loss of $2.0 million and $1.0 million, respectively, on its investment in Hospital Hill LLC.

Basis of Presentation
Certain amounts previously reported in the 2010 financial statements have been reclassified to be comparable to the 2011 presentation. As a result of the merger with HEFA during the fiscal year, all prior periods presented in the consolidated financial statements have been restated to include accounts of HEFA as required by the pooling of interest method applied by the Agency.

New Accounting Pronouncements
In July 2007, the GASB issued Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets.* GASB 51 addresses the accounting and financial reporting requirements for intangible assets acquired or created by state and local governments. The Statement requires all intangible assets subject to the provision of this Statement be classified as capital assets. This standard is effective for the Agency in fiscal year 2010. The Agency has determined that the impact of this standard is not material to the Agency.

In June 2008, the GASB issued Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments.* GASB 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The Agency implemented this standard during fiscal year 2010 (see Note 13).

In March 2009, the GASB issued Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions,* effective for the Agency's fiscal year beginning July 1, 2010. The statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The adoption of this standard does not have a significant impact on the Agency's financial statements other than to provide additional disclosures regarding governmental funds (see Note 3).

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, effective upon issuance of the standard. The statement incorporates the accounting and financial reporting guidance contained in the American Institute of Certified Public Accountants' Statements on Auditing Standards regarding related party transactions, going concern considerations and subsequent events into the GASB's financial reporting standards. The adoption of this standard did not have a significant impact on the Agency's financial statements.

In June 2011, the GASB issued Statement No. 64 (GASB 64), *Derivative Instruments: Application of Hedge Accounting Termination Provisions.* GASB 64 is intended to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement is effective for fiscal years beginning after June 15, 2011. The Agency is evaluating its impact on its financial statements.

3. Programs and Funds of the Agency

The following describes certain programs and definitions under GASB 54 of the Agency.

Emerging Technology Fund
The Emerging Technology Fund ("ETF") was established under sections 27 and 28 of Massachusetts General Laws chapter 23G. The purpose of ETF is to leverage private financing to develop specialized facilities for businesses, which develop or commercialize emerging technologies. During fiscal years prior to 2009, the Agency received $49.8 million from the Commonwealth for this fund. In fiscal year 2011, the Agency disbursed $15.0 million to the Massachusetts Growth Capital Corporation as directed in legislation by the Commonwealth of Massachusetts.

The Agency had approximately $10.1 million and $9.9 million of gross ETF loans receivable with loan loss reserves of approximately $5.3 million and $5.5 million for net ETF loans receivable of approximately $4.8 million and $4.4 million outstanding as of June 30, 2011 and 2010, respectively. As of June 30, 2011 and 2010, the Agency had approximately $27.1 million and $41.7 million, respectively, available for disbursement. All net assets of this fund are considered committed funds with net assets of approximately $31.9 million and $46.1 million as of June 30, 2011 and 2010, respectively. Agency assets at risk due to outstanding ETF guarantees, including commitments, at June 30, 2011, were $641,667. There were no Agency assets at risk due to outstanding ETF guarantees, including commitments, at June 30, 2010.

Brownfield Redevelopment Fund

The Brownfield Redevelopment Fund was established in 1998 as part of the Commonwealth's Brownfield Act to encourage reuse of environmentally contaminated property in economically distressed areas of the Commonwealth rather than open space for new economic development. This legislation initially allocated a total of $30.0 million to the Fund for the purpose of financing assessments and clean ups of eligible Brownfield sites. The Agency received an additional $30.0 million allocation in 2007. This Fund is administered by the Agency and must be invested according to an established investment policy. All related interest income must be utilized for the administration of the fund. The Agency had approximately $3.7 million and $4.4 million of gross Brownfield loans receivable with loan loss reserves of approximately $1.6 million and $1.4 million for net Brownfield loans receivable of approximately $2.1 million and $3.0 million outstanding as of June 30, 2011 and 2010, respectively. The Agency also issued approximately $2.5 million and $1.9 million of grant awards during fiscal years 2011 and 2010, respectively. As of June 30, 2011 and 2010, approximately $35.6 million and $38.0 million, respectively, are available for disbursement. All net assets of this fund are considered committed funds with net assets of approximately $39.3 million and $42.3 million as of June 30, 2011 and 2010, respectively.

Cultural Facilities Fund

The Cultural Facilities Fund was established under section 42 of the Massachusetts General Laws chapter 23G, effective July 13, 2006. The purpose of the Cultural Facilities Fund is to make grants or loans for the acquisition, design, construction, repair, renovation, rehabilitation or other capital improvement or deferred maintenance of a cultural facility. All related interest income must be utilized for the administration of the fund. In fiscal years 2009, 2008 and 2007, the Agency received funding in the amount of $14.2 million, $12.0 million, and $13.0 million, respectively, from the Commonwealth of Massachusetts. The Agency awarded approximately $7.2 million and $7.4 million of grant awards during fiscal years 2011 and 2010, respectively. As of June 30, 2011 and 2010, approximately $9.8 million and $17.4 million are available for disbursement, respectively. All net assets of this fund are considered committed funds with net assets of approximately $9.8 million and $17.4 million as of June 30, 2011 and 2010, respectively.

Massachusetts Export Development Fund
This program serves as a guarantee to lending institutions for their insurance of working capital loans to Massachusetts exporters. These funds are administered by the Agency and must be invested in securities issued by the Treasury of the United States Government or the Commonwealth. All related investment income must be utilized for the administration of this program. The Agency has designated approximately $4.2 million and $4.3 million at June 30, 2011 and 2010, respectively, for the Massachusetts Export Fund. Total Agency assets at risk due to Massachusetts Export Development Fund guarantees outstanding, including commitments, aggregated approximately $3.0 million and $4.0 million at June 30, 2011 and 2010, respectively. All net assets of this fund are considered assigned funds with net assets of approximately $7.2 million and $4.1 million and $4.3 million as of June 30, 2011 and 2010, respectively.

The following describes certain other programs of the Agency.

Credit Enhancement of Charter School Facilities Program
In 2005, the Agency was awarded $10,025,000 from the U.S. Department of Education to enable the Agency to facilitate the financing of charter schools through the issuance of loan guarantees. These funds are held as short-term investments by the Agency under the terms of the grant and can be used to pay claims on its guarantees. As of June 30, 2011 and 2010, approximately $11.7 million are available for loan guarantees, respectively. Total Agency assets at risk due to outstanding guarantees, including commitments, aggregated approximately $8.2 million and $11.0 million at June 30, 2011 and 2010, respectively.

Mortgage Insurance Fund
The purpose of the Mortgage Insurance Fund is to encourage private sector investment by guaranteeing a portion of bank loans or bond issues. Premium income received and other monies made available to the fund are credited thereto. This premium income is amortized over the loan guarantee period. The Agency has designated approximately $7.2 million and $7.3 million at June 30, 2011 and 2010, respectively, for the Mortgage Insurance Fund. Total Agency assets at risk due to mortgage insurance in force, including commitments, under the Guaranteed Loan Program, aggregated approximately $2.8 million and $2.9 million at June 30, 2011 and 2010, respectively.

Guaranteed Loan Program
The Guaranteed Loan Program allows the Agency to offer composite bond issues to the public using Agency insurance and a letter of credit from a rated financial institution. The program provides fixed rate long-term financing for eligible projects. (See Note 10).

Charitable Institutional Trust

The Charitable Institutional Trust ("Trust") was established on July 8, 1997 as an irrevocable trust. The Trust's net assets are subject to restriction regarding their use. The Trust is authorized to make payments to charitable organizations or governmental entities such as public colleges and universities which the Agency is from time to time authorized by statute to assist in the form of gifts, grants, and loans. The general fund may be eligible to receive the income and up to 10% of the principal from the Trust at the trustees' direction. All payments to the general fund shall be used by the Agency only to reduce charges it would otherwise have to impose upon institutions using the Agency's services, and all payments to charitable institutions or governmental entities must be for their charitable and governmental purposes, respectively.

During the years ended June 30, 2011 and 2010, the Charitable Trust awarded grants of $258,155 and $337,000, respectively, to charitable institutions. As of June 30, 2011 and 2010, approximately $11.9 million and $12.1 million are available for future payments, respectively. The grants are reported as capital grant awards in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

PowerOptions

PowerOptions was a nonprofit subsidiary of HEFA. PowerOptions organizes various nonprofit health, education, and cultural institutions, cities, towns, and other governmental entities into a purchasing consortium, allowing those institutions to make purchases of electricity and natural gas in the retail market. The purchasing consortium allows the institutions to take advantage of the deregulation of the natural gas and electric industries within Massachusetts. PowerOptions derives revenue from service contracts with electricity and natural gas providers and from enrollment and membership fees.

On July 15, 2010, PowerOptions, voted to amend its bylaws and change it from being a member corporation to a non-member corporation, and reduce the number of PowerOptions trustees who were Agency members from four to one. As a result, effective July 15, 2010, the Agency no longer controlled PowerOptions. A $1.3 million loss from deconsolidation was recognized in the fiscal year and is shown in operating expenses on the Consolidated Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2011.

4. Cash, Cash Equivalents and Investments

The following summarizes the cash and cash equivalents of the Agency and identifies certain types of investment risk as defined by GASB Statement No. 40, Deposit and Investment Risk Disclosures at June 30, 2011 and 2010.

June 30, 2011:	**Carrying Amount**	**Fair Value**
Cash Deposits	$ 58,811,081	$ 58,811,081
Massachusetts Municipal Depository Trust	2,044,930	2,044,930
	$ 60,856,011	$ 60,856,011

June 30, 2010 (As Restated)	**Carrying Amount**	**Fair Value**
Cash Deposits	$ 68,656,647	$ 68,656,647
Massachusetts Municipal Depository Trust	2,038,704	2,038,704
	$ 70,695,351	$ 70,695,351

The primary objectives of the Agency's investment policy is to ensure preservation of capital, to grow funds available to meet the expanding needs of lending capital in the Commonwealth of Massachusetts, to ensure liquidity of investments to meet current and estimated cash flow needs by investing in instruments with structured maturities that are readily marketable and to provide maximum yield while maintaining safety and liquidity.

Custodial Credit Risk- Deposits

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency manages its exposure to interest rate risk by investing operating funds primarily in short term investments.

Credit Risk

Credit risk is the risk that the Agency's investments will be negatively impacted due to the default of the Agency's investments. According to the Agency's investment policy, investments must be prime quality and rated no less than A by either Moody's, Standard and Poor's, or Fitch.

Concentration of Credit Risk

Concentration of credit risk is assumed to arise when the amount of investments that the Agency has with any one issuer exceeds five percent of the total value of the Agency's investments. As of June 30, 2011, the investments held in any one issuer over five percent of the total value of the Agency's investments include a $95.2 million money market fund, a $15.9 million U.S. Treasury fund and a $13.3 million guaranteed investment contract.

As of June 30, 2010, the investments held in any one issuer over five percent of the total value of the Agency's investments include a $13.3 million guaranteed investment contract, a $15.7 million repurchase agreement and a $16.3 million money market fund.

Depository Accounts

	June 30, 2011	June 30, 2010 (As Restated)
Insured	$ 19,236,040	$ 24,271,870
Uninsured and uncollateralized	39,575,041	44,384,777
	$ 58,811,081	$ 68,656,647

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

Investment Type	Fair Value	Less Than 1 Year
Certificates of Deposit	$ 1,001,925	$ 1,001,925
Commercial Paper	319,462	319,462
U.S Government and Government Agency Obligations	5,918	5,918
U.S. Treasuries Obligations	125,065	125,065
Municipal Securities	14,097	14,097
Medium-Term Notes	103,935	103,935
Asset Backed Securities	10,903	10,903
Repurchase Agreements	462,619	462,619
Other Assets and Liabilities, Net	1,006	1,006
Total	$ 2,044,930	$ 2,044,930

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

Investment Type	**Fair Value**	**Less Than 1 Year**
Certificates of Deposit	$ 802,917	$ 802,917
Commercial Paper	424,207	424,207
U.S Government and Government Agency Obligations	49,636	49,636
Federal Agencies	65,320	65,320
U.S. Treasuries Obligations	70,101	70,101
Municipal Securities	6,336	6,336
Medium Term Notes	148,578	148,578
Repurchase Agreements	493,563	493,563
Other Assets and Liabilities, Net	(21,954)	(21,954)
Total	$ 2,038,704	$ 2,038,704

GASB Statement No. 40 does not require disclosure of credit risk for the repurchase agreements.

The table below presents the Agency's investments as of June 30, 2011 and 2010:

June 30, 2011	**Fair Value**
Investments	
Corporate and government obligations	$ 191,101,205
Guaranteed investment contracts	13,457,974
Certificates of deposit	14,815
	$ 204,573,994

June 30, 2010 (As Restated)	**Fair Value**
Investments	
Corporate and government obligations	$ 206,581,753
Guaranteed investment contracts	14,229,888
Certificates of deposit	267,481
	$ 221,079,122

At June 30, 2011 and 2010, cash and cash equivalents and investments of approximately $75.6 million and $98.2 million, respectively, were designated for purposes such as specific loan programs and designations by the Commonwealth.

At June 30, 2011 and 2010, short term investments included approximately $116.2 million and $142.6 million, respectively, of restricted investments. Long term restricted investments were approximately $23.6 million and $19.7 million as of June 30, 2011 and 2010, respectively.

As of June 30, 2011, the Agency's investments by maturity are summarized as follows:

		Investment Maturities (in years)		
Investment Type	Fair Value	Less Than 1	1 to 5 *	More Than 5
U.S. Treasury Bonds	$ 25,379,819	$ 5,439,630	$ 19,940,189	$ -
U.S Government Supported Corporate Debt	1,959,666	1,959,666	-	-
Federal Agency Bonds/Notes	38,236,526	14,341,167	23,895,359	-
Corporate Notes	10,142,062	4,101,752	6,040,310	-
Commercial Paper	999,972	999,972	-	-
Certificates of Deposit	444,508	14,815	429,693	-
Asset Backed Securities	2,853,892	132,746	2,721,146	-
PFM Prime Institutional Class Money Market Fund	95,204,051	95,204,051	-	-
US Bank First American U.S. Treasury Fund	15,895,524	15,895,524	-	-
Natixis Funding Corporation Guarantee Investment Contract:	13,265,815	-	-	13,265,815
Guarantee Investment Contracts	192,159	-	-	192,159
	$ 204,573,994	$ 138,089,323	$ 53,026,697	$ 13,457,974

* Within the corporate notes category a structured investment vehicle has been adjusted to its fair market value.

As of June 30, 2010, the Agency's investments by maturity are summarized as follows:

		Investment Maturities (in years) (As Restated)		
Investment Type	Fair Value	Less Than 1	1 to 5 *	More Than 5
Short Term Money Market Portfolios	$ 175,959,745	$ 148,432,495	$ 27,527,250	$ -
U.S. Treasury Bonds	5,500,059	3,223,829	2,276,230	-
Federal Agency Bonds/Notes	7,515,010	4,715,954	2,799,056	-
Corporate Notes	419,062	-	419,062	-
Dreyfus Institutional Reserves Money Fund	1,061,754	1,061,754	-	-
Dreyfus Institutional Reserves Treasury Fund	16,126,123	16,126,123	-	-
Natixis Funding Corporation Guarantee Investment Contracts	13,265,815	-	-	13,265,815
Guarantee Investment Contracts	964,073	-	-	964,073
Certificates of deposit	267,481	267,481	-	-
	$ 221,079,122	$ 173,827,636	$ 33,021,598	$ 14,229,888

* Within this category a structured investment vehicle has been adjusted to its fair market value.

As of June 30, 2011, the Agency's investments by quality rating are summarized as follows:

				Quality Ratings			
Investment Type	Fair Value	AAA	AA	A	TSY	BBB	Unrated*
U.S. Treasury Bonds	$ 25,379,820	$ -	$ -	$ -	$ 25,379,820	$ -	$ -
U.S Government Supported Corporate Debt	1,959,666	1,959,666	-	-	-	-	-
Federal Agency Bonds/Notes	38,236,525	28,237,244	-	9,999,281	-	-	-
Corporate Notes	10,142,061	1,670,697	3,470,386	3,801,568	-	422,274	777,136
Commercial Paper	999,972	-	-	999,972	-	-	-
Certificates of Deposit	429,693	-	429,693	-	-	-	-
Asset Backed Securities	2,853,892	2,545,358	-	-	-	-	308,534
PFM Prime Institutional Class Money Market Fund	95,204,052	95,204,052	-	-		-	-
US Bank First American U.S. Treasury Fund	15,895,524	15,895,524	-	-		-	-
Natixis Funding Corporation Guarantee Investment Contracts	13,265,815		-	13,265,815		-	-
Guarantee Investment Contracts	206,974	-	-	192,159		-	14,815
	$ 204,573,994	$ 145,512,541	$ 3,900,079	$ 28,258,795	$ 25,379,820	$ 422,274	$1,100,485

* This rating category includes a structured investment vehicle in corporate notes. This investment has been adjusted to reflect fair market value.

As of June 30, 2010, the Agency's investments by quality rating are summarized as follows:

				Quality Ratings (As Restated)			
Investment Type	Fair Value	AAA	AA	A	TSY	B*	Unrated
Short Term Money Market Portfolios	$ 175,959,745	$ 165,777,091	$ 2,949,494	$ 6,289,625	$ -	$ 943,535	$ -
U.S. Treasury Bonds	5,500,059	-	-	-	5,500,059	-	-
Federal Agency Bonds/Notes	7,515,010	7,515,010	-	-	-	-	-
Corporate Notes	419,062	-	419,062	-	-	-	-
Dreyfus Institutional Reserves Money Fund	1,061,754	1,061,754	-	-	-	-	-
Dreyfus Institutional Reserves Treasury Fund	16,126,123	16,126,123	-	-	-	-	-
Natixis Funding Corporation Guarantee Investment Contracts	13,265,815		-	13,265,815	-	-	-
Guarantee Investment Contracts	964,073	-	-	964,073	-	-	-
Certificates of deposit	267,481	-	-	-	-	-	267,481
	$ 221,079,122	$ 190,479,978	$ 3,368,556	$ 20,519,513	$5,500,059	$ 943,535	$ 267,481

* The investment with a quality rating of B relates to a structured investment vehicle. This investment has been adjusted to reflect fair market value.

5. Investment in Joint Ventures

The Agency has a participating interest in sixteen joint ventures, which are accounted for on the equity method. Upon dissolution of the respective joint venture, proceeds will be distributed according to the terms of the joint venture agreements of each respective member.

The following is a summary of the Agency's investment in joint ventures at June 30,

	June 30, 2010	Capital Contributions	Distributions	Impairment Loss	Share of Gain	June 30, 2011
Cape Ann Equity Investment	$ 506,449	$ -	$ -	$ -	$ -	$ 506,449
Investment in Hospital Hill	19,050,019	551,098	(614,111)	(2,000,000)	7,102	16,994,108
Investments in NMTC entities	11,306	7,410	(262)	-	279	18,733
	$ 19,567,774	$ 558,508	$ (614,373)	$ (2,000,000)	$ 7,381	$ 17,519,290

	June 30, 2009	Capital Contributions	Distributions	(As Restated) Impairment Loss	Share of Loss	June 30, 2010
Cape Ann Equity Investment	$ 506,449	$ -	$ -	$ -	$ -	$ 506,449
Investment in Hospital Hill	21,671,977	2,374,433	(2,038,814)	(1,000,000)	(1,957,577)	19,050,019
Investment in Spires	9,000	-	-	-	(9,000)	-
Investments in NMTC entities	10,969	500	(254)	-	91	11,306
	$22,198,395	$ 2,374,933	$ (2,039,068)	$ (1,000,000)	$ (1,966,486)	$ 19,567,774

6. Loans Receivable, net

The following is a summary of the Agency's loans receivable as of June 30, 2011 and 2010:

	June 30, 2010	Disbursements (Provision, net)	Collections (Write-offs)	June 30, 2011
Loans receivable	$ 95,276,865	$ 16,035,473	$(16,634,189)	$ 94,678,149
Less: allowance for loan loss	(13,025,027)	(1,102,317)	280,982	(13,846,362)
	$ 82,251,838	$ 14,933,156	$(16,353,207)	$ 80,831,787

	June 30, 2009	Disbursements (Provision, net)	Collections (Write-offs)	June 30, 2010
Loans receivable	$ 97,709,726	$ 25,062,913	$(27,495,774)	$ 95,276,865
Less: allowance for loan loss	(13,074,947)	49,920	-	(13,025,027)
	$ 84,634,779	$ 25,112,833	$(27,495,774)	$ 82,251,838

Most loans are collateralized by a first or shared first position in the underlying collateral. As of June 30, 2011 and 2010, respectively, 13 loans totaling $4.4 million and 10 loans totaling $4.8 million are collateralized by second positions in the underlying property. Also, as of June 30, 2011 and 2010, respectively, 6 loans totaling $1.0 million and 4 loans totaling $1.1 million are collateralized by third and fourth positions. As of June 30, 2011 and 2010, respectively, 3 loans totaling $0.5 million and 3 loans totaling $1.0 million are unsecured.

Loans receivable are shown net of an allowance for loan losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance when the Agency believes the collectibility of the principal is unlikely. The allowance is an amount that the Agency believes will be adequate to absorb possible losses of existing loans that may become uncollectible, based on evaluations of the collectibility of loans.

There were approximately $8.2 million and $7.4 million net loans receivable that were considered nonaccrual loans as of June 30, 2011 and 2010, respectively. All payments received from borrowers for nonaccrual loans are applied to the principal balance of the loan.

7. Interest Receivable

The following is a summary of the Agency's interest receivable at June 30,

	2011	2010 (As Restated)
Investment interest	$ 576,629	$ 426,837
Loan interest	1,781,657	1,301,468
	$ 2,358,286	$ 1,728,305

Interest receivable includes amounts earned but not received on both investments and loans.

8. Predevelopment and Brownfield Receivable, net

The following is a summary of the Agency's Predevelopment and Brownfield receivable as of June 30, 2011 and 2010:

	June 30, 2010	Advances/ Provision	Repayments/ Reclasses	Write Offs	June 30, 2011
Predevelopment and Brownfield receivable	$4,457,435	$ 811,248	$ (434,610)	$ (139,375)	$ 4,694,698
Less: accumulated provision	(3,231,815)	(58,104)	(13,700)	117,252	(3,186,367)
	$1,225,620	$ 753,144	$ (448,310)	$ (22,123)	$ 1,508,331

	June 30, 2009	Advances/ Provision	Repayments/ Reclasses	Write Offs	June 30, 2010
Predevelopment and Brownfield receivable	$4,089,759	$ 748,644	$ (197,195)	$ (183,773)	$ 4,457,435
Less: accumulated provision	(3,027,505)	(365,933)	-	161,623	(3,231,815)
	$1,062,254	$ 382,711	$ (197,195)	$ (22,150)	$ 1,225,620

Predevelopment and Brownfield receivables represent amounts advanced to organizations for the purpose of conducting market analysis and feasibility studies for expansion of operations. Award funds are recovered in accordance with individual terms as stated in the memoranda of agreement and evaluation of collectibility.

Predevelopment and Brownfield receivables are shown net of provision of approximately $3.2 million at June 30, 2010 and 2009. The accumulated provision acts as an allowance and is an amount that the Agency estimates will be adequate to absorb possible losses of existing receivable, that may become uncollectible, based on evaluations of the collectibility of the receivables.

During fiscal year 2011, the Agency wrote off $22,123 of receivables that were deemed uncollectible (gross asset of $139,375 with reserves of $117,252). During fiscal year 2010, the Agency wrote off $22,150 of receivables that were deemed uncollectible (gross asset of $183,773 with reserves of $161,623).

The Agency awarded approximately $2.5 million and $1.9 million of Predevelopment and Brownfield grant awards during fiscal years 2011 and 2010, respectively, which are included in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets. These are awards that are not considered to be recoverable at the time of issuance.

9. Capital Assets, net

A summary of changes in capital assets for the years ending June 30, 2011 and 2010, respectively, is as follows:

	Useful Life Range in Years	June 30, 2010	Additions/ Transfers	Disposals/ Transfers	June 30, 2011
Land	N/A	$ 8,260,054	$ -	$ (7,270)	$ 8,252,784
Building	20-40	157,480,464	4,917,606	(143,707)	162,254,363
Buildings/land improvements	5-20	37,163,824	169,617	(3,200)	37,330,241
Infrastructure	5-20	127,266,592	1,531,617	(169,381)	128,628,828
Tenant improvements	1-2	1,054,715	11,678	-	1,066,393
Equipment	3-10	4,088,238	322,560	(147,474)	4,263,324
Office equipment	3-5	2,918,641	27,721	-	2,946,362
Construction in progress		4,782,064	(2,164,132)	-	2,617,932
Assets held for sale		138,840	-	-	138,840
Subtotal		343,153,432	4,816,667	(471,032)	347,499,067
Less: accumulated depreciation		(87,722,805)	(12,347,418)	277,714	(99,792,509)
Total		$255,430,627			$247,706,558

	Useful Life Range in Years	June 30, 2009	(As Restated) Additions/ Transfers	Disposals/ Transfers	June 30, 2010
Land	N/A	$ 8,260,054	$ -	$ -	$ 8,260,054
Building	20-40	154,732,475	2,747,989	-	157,480,464
Buildings/land improvements	5-20	37,152,295	11,529	-	37,163,824
Infrastructure	5-20	91,409,017	35,857,575	-	127,266,592
Tenant improvements	1-2	-	1,054,715	-	1,054,715
Equipment	3-10	3,927,863	160,375	-	4,088,238
Office equipment	3-5	2,640,369	278,272	-	2,918,641
Construction in progress		24,392,299	(18,902,940)	(707,295)	4,782,064
Assets held for sale		138,840	-	-	138,840
Subtotal		322,653,212	21,207,515	(707,295)	343,153,432
Less: accumulated depreciation		(76,777,242)	(10,957,770)	12,207	(87,722,805)
Total		$245,875,970			$255,430,627

The Agency recognized depreciation expense of approximately $12.3 million and $10.9 million related to fixed assets during the fiscal years 2011 and 2010, respectively.

100 Cambridge Street Project
As of June 30, 2011 and 2010, the Agency has cumulative net costs associated with the 100 Cambridge Street Project of approximately $117.2 million and $121.0 million, respectively, which is included in capital assets. The related depreciation expense for the years ended June 30, 2011 and 2010 was approximately $4.1 million.

Kerr Mill
In 2001, construction was completed on the Kerr Mill site in Fall River, Massachusetts. The Agency was responsible for the construction of the Advanced Technology and Manufacturing Center for the University of Massachusetts (known as "ATMC"). The ATMC is built on the site of the Kerr Mill, which was destroyed by fire on January 12, 1987. The Agency's cumulative net costs of approximately $10.2 million and $10.6 million, respectively, related to this project as of June 30, 2011 and 2010, are included in capital assets. The related depreciation expense for the years ended June 30, 2011 and 2010 was approximately $494,000 and $491,000, respectively.

Devens
As of June 30, 2011 and 2010, the Agency has cumulative net costs associated with the development of Devens, including utilities, of approximately $112.9 million and $118.0 million, respectively, which is included in capital assets. The related depreciation expense for the years ended June 30, 2011 and 2010 was approximately $7.0 million and $6.0 million, respectively.

The Agency had three lot sales in fiscal year 2011 resulting in gross sales proceeds of $601,286 and net gains on sale of $391,468. There were no land sales at Devens during fiscal year 2010.

Springfield
The Agency purchased a building in Springfield, Massachusetts in September 2009 for a purchase price of $2.5 million. The Agency has cumulative net costs associated with 1550 Main Street of approximately $7.7 million and $5.9 million as of June 30, 2011 and 2010, respectively, which is included in capital assets. The major redevelopment projects included replacement of elevators, renovation of restrooms, replacement of public plaza and significant renovations to the building's storefront and public atrium. The Agency recognized approximately $1.5 million of capital grant revenue associated with the redevelopment projects during the fiscal year. The full grant amount of $3.0 million has been recognized to date. The related depreciation expense for the years ended June 30, 2011 and 2010 was approximately $590,000 and $167,000, respectively.

The Agency leases office, commercial, and retail space at 100 Cambridge Street, Kerr Mill, Springfield and Devens. At June 30, 2011, the Agency had minimum future rental income for the next five fiscal years, under long-term non-cancelable operating leases for facilities as follows:

Fiscal Year	
2012	$ 17,878,893
2013	17,471,612
2014	16,796,061
2015	16,476,996
2016	14,682,485
Total	$ 83,306,047

10. Outstanding Commitments, Loans and Revenue Bonds Issued

The Agency has committed to issuing $15.7 million and $10.8 million of loans at June 30, 2011 and 2010. The Agency issued loans aggregating $16.0 million and $25.1 million during fiscal years 2011 and 2010, respectively.

The Agency assisted in the issuance of taxable and tax-exempt bonds and lease transactions through its bond financing program on behalf of 116 projects aggregating $3.6 billion during the fiscal year 2011 and 115 projects aggregating $3.9 billion during fiscal year 2010. The Agency also completed 3 and 23 pool loan transactions for approximately $27.5 million and $111.0 million during fiscal years 2011 and 2010, respectively. These debt obligations are conduit transactions and do not constitute a debt or liability of the Agency, therefore, these financing transactions are not included in the accompanying consolidated financial statements. The Agency has earned bond issuance fee revenues related to these financings of approximately $10.8 million and $3.9 million, in fiscal years 2011 and 2010, respectively.

At June 30, 2011, the Agency had minimum future rental commitments for the next five fiscal years, under long-term non-cancelable operating leases for facilities as follows:

Fiscal Year	
2012	$ 4,198,613
2013	4,202,930
2014	4,210,072
2015	3,257,297
2016	3,051,733
Total	$ 18,920,646

Rent expense included in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Assets was approximately $4.1 million and $4.2 million for fiscal years 2011 and 2010.

In September 1993, approximately $95.8 million of bonds were issued by the City of Chelsea to construct the Massachusetts Information Technology Center (MITC) in Chelsea, Massachusetts. The City of Chelsea loaned the bond proceeds to the Agency to purchase land and construct the building. Concurrently, the Agency, as lessor, signed a net lease with the Commonwealth, as lessee. A third party trustee receives lease payments from the lessee of the building and makes payments on the bonds as they become due. The Agency retains title to the building. At the end of the lease, title will pass to the Commonwealth, and the bonds and loan are nonrecourse to the Agency. Accordingly, neither the asset nor the liability of MITC has been recorded in the Agency's financial statements. Use of the building by the Agency is restricted to limitations set forth in the trust agreement. In May 2010, the MITC building was sold to the Commonwealth of Massachusetts for $1.00.

During 2002, M/SBRC entered into a 50-year ground lease with the Commonwealth, which includes an option to extend for two 15-year periods. M/SBRC pays ground rent in the amount of $2.5 million per fiscal year and this amount is included in property, maintenance and utility expenses in the Consolidated Statement of Revenues, Expenses and Changes in Net Assets. As of June 30, 2011 all ground rent and ground rent interest had been paid. As of June 30, 2010 $2.2 million of accrued ground rent and ground rent interest was included in accrued expenses. The payment of ground rent and ground rent interest is subordinate to payments of operating expenses and debt service and funding of project reserves.

The Agency also leases office space in Boston and Devens, Massachusetts and various other cities for regional offices throughout Massachusetts. The Agency leases approximately 8,200 square feet at 99 Summer Street and approximately 29,863 square feet at 160 Federal Street in Boston, Massachusetts. The 99 Summer Street lease ends February 28, 2016 with a five year option to extend and the 160 Federal Street lease ends June 30, 2014 with a five year option to extend. The Agency leases approximately 20,000 square feet at 33 Andrews Parkway in Devens, Massachusetts which ends March 1, 2014 with two five year options to extend. Rent expense for the years ended June 30, 2011 and 2010 for the Boston office space was approximately $1.1 million and $1.2 million, respectively. Rent expense for the years ended June 30, 2011 and 2010 for the Devens office space was approximately $399,000.

11. Net Assets

At June 30, 2011 and 2010, invested in capital assets, net of related debt consists of the following:

	2011	2010 (As Restated)
Capital assets		
Fixed assets	$ 344,881,135	$ 338,371,368
Construction in progress	2,617,932	4,782,064
	347,499,067	343,153,432
Less accumulated depreciation	(99,792,509)	(87,722,805)
Total capital assets	247,706,558	255,430,627
Deferred financing costs	13,340,935	13,340,935
Less accumulated amortization	(5,985,794)	(5,353,845)
Total deferred financing costs	7,355,141	7,987,090
Less related liabilities		
Bonds payable, net	(161,663,673)	(163,737,706)
Loans payable	(11,781,350)	(12,189,787)
Invested in capital assets, net of related debt	$ 81,616,676	$ 87,490,224

At June 30, 2011 and 2010, restricted net assets consist of the following:

	2011	2010 (As Restated)
Restricted assets		
Cash and cash equivalents and investments	$ 141,024,729	$ 174,302,174
Loans and accounts receivable	19,269,829	22,598,221
Other restricted assets, net	2,164,586	2,351,388
Restricted net assets	$ 162,459,144	$ 199,251,783

At June 30, 2011 and 2010, unrestricted net assets consist of the following:

	2011	2010 (As Restated)
Cash and cash equivalents and investments	$ 96,828,054	$ 82,646,078
Loans and accounts receivable	77,989,024	76,265,410
Other unrestricted assets, net	18,062,642	20,515,670
Unrestricted net assets	192,879,720	179,427,158
Total net assets	$ 436,955,540	$ 466,169,165

12. Bonds Payable

The following is a summary of the Agency's bonds payable activity for the years ended June 30, 2011 and 2010, respectively:

	Interest Rate at June 30, 2011	June 30, 2010	Additions	Principal Payments	June 30, 2011
Electric System Utility Bond	5.74%	$ 9,010,000	$ -	$ (235,000)	$ 8,775,000
M/SBRC Redevelopment Revenue Bonds	5.44%	168,760,000	-	(1,950,000)	166,810,000
		177,770,000	-	(2,185,000)	175,585,000
Plus					
Premium		16,854	-	(1,190)	15,664
Less					
Electric System Utility Bonds Discount		(69,816)	-	7,270	(62,546)
M/SBRC Redevelopment Bonds Discount		(1,753,132)	-	105,931	(1,647,201)
		$ 175,963,906	$ -	$ (2,072,989)	$ 173,890,917

	Weighted Average Interest Rate at June 30, 2010	June 30, 2009	Additions	Principal Payments	June 30, 2010
Electric System Utility Bond	5.74%	$ 9,235,000	$ -	$ (225,000)	$ 9,010,000
M/SBRC Redevelopment Revenue Bonds	5.44%	170,160,000	-	(1,400,000)	168,760,000
		179,395,000	-	(1,625,000)	177,770,000
Plus					
Premium		18,044	-	(1,190)	16,854
Less					
Electric System Utility Bonds Discount		(77,086)	-	7,270	(69,816)
M/SBRC Redevelopment Bonds Discount		(1,859,063)	-	105,931	(1,753,132)
		$ 177,476,895	$ -	$ (1,512,989)	$ 175,963,906

Electric System Utility Bond

During fiscal 2001, the Agency issued Electric System Revenue Bonds, Series 2001 for the Devens project which totaled approximately $10.6 million. The Agency acquired the electric transmission and distribution facilities (the "Electric System") serving Devens from the Army in 1996. The Electric System includes three transmission substations that interconnect Devens with the regional transmission system serving New England, as well as electric distribution facilities serving the area within Devens. The Series 2001 Bonds were used to finance the design, construction, installation and associated costs of certain capital improvements to the Electric System at Devens. The Series 2001 Bonds are collateralized by a pledge of the Electric System's Revenues and certain funds and accounts, including the Debt Service Reserve Fund, established under the Resolution.

Bond Funds of the Electric System Utility Bond

At June 30, 2011 and 2010 the Revenue Fund had balances of $5.3 million and $5.0 million, respectively. All revenues generated by the Electric System, exclusive of interest income, shall be deposited into the Revenue Fund. Funds are transferred from the Revenue Fund to other funds of the Electric System according to the bond resolution agreement.

At June 30, 2011 and 2010, the Capital Upgrade Reserve Fund had balances of $3.8 million and $4.6 million, respectively. The Capital Upgrade Reserve Fund may be used to fund capital improvements to the Electric System. In fiscal years 2011 and 2010 no excess funds were transferred into the Capital Upgrade Reserve Fund, but $0.8 million and $3.4 million was used for electrical infrastructure improvements at Devens.

The Agency may transfer funds from the Capital Upgrade Reserve Fund to the Revenue Fund. Excess balances in the Revenue Fund may be transferred to the Agency, free and clear of the lien of the bond resolution, if all funding requirements are met and the debt service coverage requirement of 1.5 has been met, cumulatively, during the twelve consecutive months prior to the transfer date. No excess balances were transferred to the Agency during fiscal years 2011 or 2010.

At June 30, 2011 and 2010, the Rate Stabilization Reserve Fund had balances of $3.3 million, respectively. The Rate Stabilization Reserve Fund may be used to fund operating expenses of the Electric System when there are not sufficient funds available from operations. No funds were used in fiscal years 2011 and 2010. Approximately $525,000 was transferred into the Rate Stabilization Reserve Fund during fiscal year 2010.

Principal payments are due annually through 2030. Interest expense related to this bond was $521,241 and $533,028 for the years ended June 30, 2011 and 2010, respectively, of which $49,640 remained payable as of June 30, 2011 and 2010.

Principal outstanding was approximately $8.8 million and $9.0 million at the June 30, 2011 and 2010, respectively, and is included within bonds payable in the Agency's financial statements.

Financing costs associated with this bond issuance were $420,397. Net financing costs as of June 30, 2011 and 2010 were $194,575 and $216,254, respectively. Amortization for the years ended June 30, 2011 and 2010 was $21,679.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default, as long as the Agency complies with specific requirements included in the agreement. As of June 30, 2011 and 2010, the necessary debt service coverage was met.

M/SBRC Redevelopment Revenue Bonds
On May 2, 2002, the Agency issued revenue bonds, Series 2002A, 2002B and 2002C in the aggregate principal amount of $195.8 million for the 100 Cambridge Street Project ("the Project"). The bonds bear interest at varying rates with maturities of various amounts through 2034.

The Bonds were issued in the following series:

$91,660,000 Revenue Bonds Series 2002A-Fixed Rate
$83,100,000 Revenue Bonds Series 2002B-Variable Rate
$21,050,000 Revenue Bonds Series 2002C-Variable Rate

The M/SBRC Redevelopment Revenue Bond agreement provides for, among other requirements, the maintenance of a minimum senior debt service coverage ratio and certain other covenants. As of June 30, 2011 and 2010, the necessary debt service coverage ratio was met.

The bonds are payable solely from certain revenues of the Project, including deposits to be made with the Trustee by M/SBRC in accordance with the provisions of the Mortgage and Trust Agreement (the "Agreement") dated as of April 1, 2002 among the Agency, M/SBRC and the Trustee.

On July 24, 2008 the Series 2002C bond, was redeemed in the amount of $20.5 million.

Bond Funds of the M/SBRC Redevelopment Revenue Bonds
The bond documents require the maintenance of certain funds of the Project.

At June 30, 2011 and 2010, the Replacement Reserve Fund had balances of $0.7 million and $0.6 million, respectively. This account is funded each month based on rented square feet at M/SBRC. These funds will be used to fund tenant improvements when tenants vacate space.

At June 30, 2011 and 2010, the Project Reserve Fund had a balance of $5.0 million. This account is funded each month through the flow of funds when there is sufficient revenue, as determined by the mortgage and trust agreement, and is to be used to pay operating expenses if project revenues are not sufficient.

At June 30, 2011 and 2010, the Debt Service Reserve Fund had a balance of $13.3 million. This account, originally funded with bond proceeds, is a reserve account that will be used to pay debt service if cash flows of the project are insufficient to pay required debt service payments.

At June 30, 2011 and 2010, the Commonwealth Tenant Improvement Fund had a balance of $2.0 million. These funds will be used to fund tenant improvements related to the Commonwealth of Massachusetts leased space.

Interest expense related to this bond was approximately $9.1 million and $9.2 million for the fiscal years ended June 30, 2010 and 2009, of which approximately $2.3 million is unpaid as of June 30, 2011 and 2010. The Agency has recorded an interest payable for this amount.

Principal outstanding was $166.8 million and $168.8 million at June 30, 2011 and 2010, respectively, and is included within bonds payable in the Agency's financial statements.

The total financing costs were approximately $13.8 million when the bonds were issued during fiscal year 2002. Net financing costs were approximately $7.2 million and $7.7 million as of June 30, 2011 and 2010, respectively. Amortization expense for the years ended June 30, 2011 and 2010 was $582,528 and $557,193, respectively.

Scheduled principal (excluding discounts and premiums) and estimated interest payments on all the Bonds payable are shown below.

Fiscal Year	Principal	Interest	Total Debt Service
2012	$ 1,245,000	$ 9,491,076	$ 10,736,076
2013	3,160,000	9,363,400	12,523,400
2014	2,625,000	9,182,348	11,807,348
2015	4,290,000	8,967,521	13,257,521
2016	5,005,000	8,693,643	13,698,643
2017-2021	29,400,000	38,727,038	68,127,038
2022-2026	40,545,000	28,478,065	69,023,065
2027-2031	52,885,000	14,736,209	67,621,209
2032-2034	36,430,000	1,741,731	38,171,731
	$ 175,585,000	$ 129,381,031	$ 304,966,031

13. Interest Rate Swap

In May 2002, the Agency entered into two interest rate swap agreements ("Swap") with Lehman Brothers Special Financing, Inc. ("Counterparty"), a subsidiary of Lehman Brothers Holding, Inc. ("Lehman"), in connection with the Series 2002B variable rate revenue bonds (the "2002B Bonds") of $13,450,000 and $69,650,000. The intention of the Swap was to effectively fix the Agency's variable interest rate on the Bonds.

Under the Swap as originally consummated, the Agency paid a Counterparty an annual fixed interest rate and received from the Counterparty variable rate payments based upon an auction rate. At its inception, the Swap had a notional amount of $83.1 million and the associated 2002B Bonds had an $83.1 million principal amount. The Swap was entered into at the same time the Bonds were issued (May 2002) and the 2002B Bonds' variable rate was based on the auction rate.

The 2002B Bonds mature on February 1, 2026. The related interest rate Swap of $13,450,000 terminated on August 1, 2007 and $69,650,000 will terminate on February 1, 2026.

On March 30, 2006, the Agency modified (with the consent of bondholders) the terms of the 2002B Bonds and the Swap in order to achieve a lower effective fixed rate, eliminate certain uncertainties, including auction risk, and obtain more favorable provisions under the Swap. As a result of these changes, the Agency now pays the bondholders variable interest payments of 3 Month LIBOR ("LIBOR") plus 30 basis points and receives variable Swap payments of LIBOR plus 30 basis points from the Counterparty and pays the Counterparty a fixed rate of 6.747% with respect to the $69,650,000 portion of the Swap.

Payments on the Swap and the interest payments on the fixed rate bonds are summarized below:

Fiscal	Counterparty Swap Payments			Interest Payments to	Total
Year End	To	From	Net	Bondholders	Payments
March 2006 - June 30, 2009	$ (14,483,560)	$ 9,658,486	$ (4,825,074)	$ (9,658,486)	$ (14,483,560)
June 30, 2010	(4,397,357)	539,507	(3,857,850)	(539,507)	(4,397,357)
June 30, 2011	(4,295,309)	421,946	(3,873,363)	(421,946)	(4,295,309)
Total	$ (23,176,226)	$ 10,619,939	$(12,556,287)	$ (10,619,939)	$ (23,176,226)

On September 15, 2008 Lehman filed for bankruptcy. The Counterparty also filed for bankruptcy on October 3, 2008. The Agency has continued to pay the underlying bondholders the variable interest payments. The Agency is currently unhedged against interest rates in excess of LIBOR greater than 6.447% due to the Counterparty's bankruptcy.

The fair value of the Swap had an unrealized negative market value of approximately $16.0 million and $18.2 million, as of June 30, 2011 and 2010, respectively. In accordance with GASB 53, the $16.0 million and $18.2 million deferral of possible payments related to the unrealized negative market value is shown as a deferred outflow interest rate swap asset in the Consolidated Balance Sheet as of June 30, 2011 and 2010, respectively. The offsetting $16.0 million and $18.2 million unrealized negative market value of the interest rate swap is shown as a deferred interest rate swap liability in the Consolidated Balance Sheet as of June 30, 2011 and 2010, respectively.

The market value of the Swap at June 30, 2011 and 2010 was developed by a third party consultant and is based upon confirmation transactional information, including the notional amortization schedules contained therein, comparing the rate on the Swap with market rates on the valuation date and taking the present-value of the differential between the Swap and market rates back to the valuation date using accepted market discount rates for the each respective amortization date involved.

The Agency or the Counterparty may terminate the Swap if the other party fails to perform under the terms of the contract. If at the time of termination the Swap has a negative fair value, the Agency would be liable to the counterparty for the replacement value of the Swap. The Agency is continuing to research an appropriate plan of action. The final outcome and impact of this matter is currently unknown.

14. Advances from the Commonwealth of Massachusetts

The following is a summary of the Agency's Advances from the Commonwealth as of June 30,

	2010	Repayments	2011
Massachusetts Dept. of Environmental Protection	$ 12,189,787	$ (408,437)	$ 11,781,350
Devens-municipal services	3,750,000	-	3,750,000
	$ 15,939,787	$ (408,437)	$ 15,531,350

During the year ended June 30, 1998, the Massachusetts Department of Environmental Protection ("DEP") approved loans to the Agency. The Massachusetts Water Abatement Trust ("MWAT") issued loans to the Agency to construct a wastewater treatment facility at Devens. These loans will be paid back to the trust through revenues generated from wastewater usage at Devens and surrounding communities. The loan proceeds were used to build a new wastewater treatment plant at Devens. These loans are part of a pooled loan program bond within the MWAT. The Agency and the Commonwealth have entered into a contract providing that the Commonwealth shall pay contract assistance on behalf of the Agency with respect to partial debt service on these loans. Repayment of the loans began on February 1, 2002. The loans mature in August 2024 and February 2031. Interest expense related to these loans was $618,570 and $639,157 for the years ended June 30, 2011 and 2010, respectively.

The Massachusetts Water Abatement Trust Loan agreement requires the maintenance of an adequate annual debt service coverage ratio. Failure to comply with the annual debt service coverage ratio does not constitute a default, as long as the Agency complies with specific requirements included in the agreement. The debt service coverage ratio is calculated on a cash basis. As of June 30, 2011 and 2010, the necessary debt service coverage was met.

The scheduled principal and interest payments on the DEP loans at June 30, 2011, are as follows:

Fiscal Year	Principal	Interest	Total Debt Service
2012	$ 420,736	$ 597,716	$ 1,018,452
2013	437,657	564,255	1,001,912
2014	454,756	538,719	993,475
2015	471,891	524,439	996,330
2016	488,053	496,114	984,167
2017-2021	2,713,393	1,971,556	4,684,949
2022-2026	3,175,594	1,045,247	4,220,841
2027-2031	3,619,270	496,044	4,115,314
	$ 11,781,350	$ 6,234,090	$ 18,015,441

In June of 1997 the Agency received a one-time advance of approximately $3.8 million for administration and provision of municipal services at Devens. This amount has no set repayment schedule and may be reimbursed to the Commonwealth with monies generated by any future capital appropriations. Such amounts may be withheld by the Commonwealth from future payments at the Commonwealth's discretion.

15. Deferred Revenue and Other Liabilities

The following is a summary of the Agency's deferred revenue as of June 30,

	2011	2010 (As Restated)
Gain/loss on sale of real estate	$ 31,000	$ 525,820
New Markets Tax Credits closing fees	390,850	1,727,800
Excess pool loan funds	803,695	654,427
Other compensation	-	353,717
43-D expedited permitting	-	79,296
Devens municipal service, ad valorem, and recreation fees	205,476	180,819
Other	438,887	483,944
	$ 1,869,908	$ 4,005,823

The deferred gain/loss on sale of real estate will be recognized once certain triggering events included in repurchase agreements at Devens have been satisfied. The deferred gain/loss on sale of real estate as of June 30, 2011 relates to deposits received for future sales at Devens. The deferred gain/loss on sale of real estate as of June 30, 2010 relates to the sale of the former Devens library building. Sales proceeds were received in June 2010, but the actual sale took place in July 2010, and the purchase and sale agreement contained a six month repurchase clause. This gain on sale was recognized in fiscal year 2011.

Deferred New Markets Tax Credits closing fees relate to fees received by the Agency in relation to the New Markets Tax Credit programs that are amortized over the life of the related loans.

Excess pool loan funds are related to a refund of excess funds in pool loan funds which were closed in fiscal year 2010. These deferred pool loan funds will be used to offset future pool loan fund expenses.

Other compensation as of June 30, 2010 related to a supplemental executive retirement plan ("SERP"). The Agency had established a grantor trust for the purpose of accumulating assets to provide for the payments under the SERP. The SERP was terminated in fiscal year 2011.

Deferred Devens municipal service, ad valorem and recreations fees relate to Devens municipal service, ad valorem, and recreation fees billed, but not yet due. Deferred 43-D expedited permitting relate to funds received from the Commonwealth of Massachusetts during fiscal years 2008 and 2007. Income has been fully recognized as of June 30, 2011 as the related funds have been spent. Other deferred revenue mainly relates to deferred rent.

16. Other Related Party Transactions

The following related party transactions are not reflective of consideration of what these arrangements might have been if they occurred in an arms-length transaction.

The Agency oversees the management and development of the State Fish Pier (the "Pier") facilities, which are leased to the Agency by the Department of Environmental Management, Office of Waterways (representing The Commonwealth of Massachusetts), on behalf of the Bureau of Coastal Engineering. The Pier reimburses the Agency for salaries and other direct costs paid by the Agency, which amounted to $192,707 and $169,550 for the years ended June 30, 2011 and 2010, respectively. Additionally, the Agency has an arrangement to receive a management and development fee for its services which is based upon direct Agency staff time spent on Pier related matters. The Agency incurred $105,623 and $70,477 for the years ended June 30, 2011 and 2010, respectively, of staff time for which the Agency billed the Pier.

The Agency also oversees management services for Cape Ann Fisheries Development Corporation ("Cape Ann"), a non-profit corporation formed for construction and management of a multi-tenant seafood processing facility at the State Fish Pier in Gloucester. In fiscal year 2001, the Agency provided two loans to Cape Ann in the amounts of $2.3 million and $500,000 for construction expenses and remediation of environmental conditions at the seafood processing facility. As of June 30, 2011, the balance of these loans receivable, net of allowance for loan loss, amounted to $0, as the Agency fully reserved these loans during fiscal year 2011 and $699,375 and $194,038 as of June 30, 2010, respectively. In September 2009, the Agency refinanced another Cape Ann loan in the amount of $2.7 million. The balance on this loan receivable, net of allowance for loan loss, was $1,123,025 and $1,298,367 as of June 30, 2011 and 2010, respectively. These loans receivable are included in loans receivable, net on the Consolidated Balance Sheet as of June 30, 2011 and 2010. The Agency donated approximately $18,639 and $12,437 of Agency staff time and $34,007 and $29,921 of Pier staff time and direct costs to Cape Ann during fiscal years 2011 and 2010, respectively. These donated costs covered management services provided to Cape Ann during the fiscal year.

The Agency has entered into a 50 year ground lease with the Commonwealth of Massachusetts for 100 Cambridge Street. The lease contains an option to extend for two 15 year periods. Annual base rent for the ground lease is approximately $2.5 million each year and is included in general and administrative expenses in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2011 and 2010.

The Agency is eligible to receive an administrative fee of up to 0.10% of the average daily assets of the Short-Term Asset Reserve Fund ("Star Fund"). The STAR Fund is an investment fund that is managed like a money market fund that invests in short-term, high-quality securities and is available for the investment of bond proceeds of the Agency's client institutions. The STAR Fund is designed to preserve principal, provide daily liquidity, and earn a high level of income. The Agency's Star Fund holdings held on its own account as of June 30, 2011 and 2010, were approximately $11.3 million and $15.8 million, respectively, and are included in cash and cash equivalents in the Consolidated Balance Sheets. During the years ended June 30, 2011 and 2010, the Agency received administrative fees of $374,807 and $487,633, respectively, from the STAR

Fund. The administrative fees are reported in bond issuance and New Markets Tax Credit fees in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

17. Benefit Plan

The Agency contributed approximately $1.3 million and $1.6 million to employee benefit plans described below during the years ended June 30, 2011 and 2010, respectively.

Deferred Compensation Plan
The Agency offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Agency, permits employees to defer a portion of their salaries. The Agency matches employees' deferrals up to 5% of the participants' salary, which are contributed to the 401(a) defined contribution plan. The participants' rights to the Agency contributions vest immediately.

The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All contributions made under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are held in trust for the exclusive benefit of the participants and their beneficiaries. Participants' rights under the plan are equal to the fair value of the deferred account for each participant. All plan assets are stated at fair value.

Effective December 31, 1997, Section 401(a) of the Internal Revenue Code was amended by Section 1448 of the Small Business Job protection Act of 1996 which provides that governmental deferred compensation plans must hold all assets and income of the plan in trust for the exclusive benefit of participants and their beneficiaries.

In accordance with the legislation described above, the vested assets and associated liability of the deferred compensation plan assets at June 30, 2011 and 2010 are not included in the balance sheet.

401(a) Defined Contribution Plan
The Agency provides for retirement through a contribution to a 401(a) plan for eligible employees. Employees participating in the Commonwealth of Massachusetts Pension Plan are not eligible for this contribution. The contribution is equal to a percentage of the employee's gross compensation earned each pay period. Currently, the Agency's contribution is 7.5% of the employee's gross compensation. Employees who began employment with the Agency on or after January 1, 1999 are subject to a three-year vesting schedule.

The Agency may make loans up to 50% of the vested accrued balance in the 401(a) account. Otherwise, the vested balance is not available to employees until termination, retirement, permanent disability, or death. Participants' rights under the plan are equal to the fair value of the vested balance for each participant. All plan assets are stated at fair value.

The unvested portion of the 401(a) plan is recorded on the consolidated balance sheet as an asset. The total unvested portion of the 401(a) plan as of June 30, 2011 and 2010 was approximately $214,000 and $296,000, respectively.

In August 2004, the GASB issued Statement No. 45, (GASB 45) *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions ("OPEB").* GASB 45 establishes standards for how state and local governments should measure, recognize, and display (1) the expense/expenditures associated with their employees' non-pension postretirement benefits, (2) liabilities (assets) related to those benefits, (3) note disclosures, and (4) any required supplementary information. In 1998, Massachusetts Government Land Bank ("Land Bank") and Massachusetts Industrial Finance Agency ("MIFA") merged to create the Agency. Prior to this merger, all Land Bank employees were on the State Retirement System; MIFA employees were not. All former Land Bank employees were given the option to stay in the State Retirement System or take part in the retirement plans being offered by the Agency. Any new employees hired after the merger were not eligible to participate in the State Retirement System, except for the union firefighters. The State Retirement System provides benefits including retiree health benefits to qualifying retirees. The programs are carried out by the Commonwealth. There are currently 29 employees in the State Retirement System. Neither the Land Bank nor the Agency was ever charged for post retirement benefits for its current employees or its retirees from the Commonwealth Group Insurance Commission. The Agency's management has reviewed the requirements of GASB 45, in particular paragraph 52 of the standard, and believes the Agency is not liable for OPEB costs for current active or retired employees due to the following: there is no statutory requirement holding the Agency liable for OPEB costs; the Agency has never been billed by the Group Insurance Commission for any OPEB costs; and it is the legal opinion of the Agency's outside attorney that no evidence exists that indicates that the Agency is liable for these costs.

Defined Contribution Retirement Plan

The Agency self-administers a defined contribution retirement plan that qualifies as a 401(k) plan under IRC guidelines, called the Massachusetts Health and Educational Facilities Authority 401(k) Plan (the "Plan") as a result of the merger with HEFA. The Plan's funds are held in trust at Fidelity Investments, which acts as custodian, facilitator of transactions, and provider of trade confirmations and monthly statements of accounts for employees.

Until October 1, 2010, the effective date of the HEFA merger, employees were able to contribute, through payroll deduction, to their accounts on a tax-deferred basis up to IRC-specified levels. HEFA contributed 10% of an employee's gross salary each pay period to every eligible employee's account. In addition, HEFA matched 100% of contributions up to a maximum of $100 per pay period of employees' tax-deferred contributions. This equates to a $2,600 per annum maximum matching per employee. Employee investments are self-directed. Changes in allocation and amount are per written instruction of the employee. All employee and HEFA contributions are fully vested upon contribution. HEFA's contributions to the Plan for fiscal years 2011 and 2010 were $47,000 and $225,000, respectively.

The Plan was merged into the Agency's 401(a) defined contribution plan on September 1, 2011. The former Plan accounts are being held as separate accounts in the Agency's 401(a) plan.

During 2006, HEFA adopted a supplemental executive retirement plan (SERP). HEFA had established a grantor trust for the purpose of accumulating assets to provide for the payments under the SERP. Assets held by the trustee are subject to the claims of the Agency's general creditors. The investment assets and related liabilities of SERP are recorded in the accompanying consolidated balance sheets. The SERP was terminated during fiscal year 2011.

18. Segment Reporting

Devens Electric Utility
In February 2001, the Agency issued Electrical System Revenue Bonds, Series 2001 for the purpose of financing the design, construction, installation and associated costs of the electrical system at Devens. As required by Section 609 of the Master Trust Indenture by and between the Agency and the Trustee, the Agency accounts for all related revenues and expenditures associated with the utilities at Devens as a separate division within the Agency (the "Devens Electric Utility Division").

Commencing in 2001, in accordance with the Master Trust Indenture, the Agency began to account for all activities related to Devens Electric Utility Division separately. Prior to 2001, all such activities were accounted for in the General Fund of the Agency.

A separate financial statement for Devens Electric Utility Division is published and is available upon request.

Condensed Balance Sheets

	2011	2010
Assets		
Current assets	$ 7,302,216	$ 8,114,309
Due from Massachusetts Development Finance Agency	289,574	-
Noncurrent assets	8,274,166	9,101,862
Capital assets, net	20,526,714	21,489,890
Total assets	$36,392,670	$38,706,061
Liabilities and Net Assets		
Current liabilities	$ 1,531,387	$ 1,906,984
Due to Massachusetts Development Finance Agency	-	748,965
Noncurrent liabilities	8,467,454	8,705,184
Total liabilities	9,998,841	11,361,133
Net assets		
Invested in capital assets, net of debt	12,540,224	13,297,191
Restricted net assets	13,853,605	14,047,737
Total net assets	26,393,829	27,344,928
Total liabilities and net assets	$ 36,392,670	$ 38,706,061

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30,

	2011	2010
Operating revenues	$ 20,082,126	$ 22,052,286
Operating expenses	19,222,328	19,270,028
Depreciation	1,321,963	1,075,959
Operating income	(462,165)	1,706,299
Nonoperating expenses, net	(488,934)	(486,429)
Capital grant revenue	-	2,587,581
Increase in net assets	(951,099)	3,807,451
Net assets at beginning of year	27,344,928	23,537,477
Net assets at end of year	$ 26,393,829	$ 27,344,928

Condensed Statements of Cash Flows for the years ended June 30,

	2011	2010
Net cash provided by operating activities	$ 801,745	$ 5,141,724
Net cash used in capital and related financing activities	(1,207,850)	(4,569,562)
Net cash provided by investing activities	837,456	73,299
Net increase in cash and cash equivalents	431,351	645,461
Cash and cash equivalents at beginning of year	13,008,014	12,362,553
Cash and cash equivalents at end of year	$ 13,439,365	$ 13,008,014

Massdevelopment/Saltonstall Building Redevelopment Corporation ("M/SBRC")
The project consists of rehabilitation and renovation of an existing state office building located at 100 Cambridge Street, Boston, Massachusetts, known as the Leverett Saltonstall Building and the redevelopment of the remainder of the site. The pre-existing facility included 22 floors of office space of approximately 28,000 square feet each, a mezzanine floor of approximately 11,000 square feet and an underground garage. The redevelopment of the site included the construction of approximately 34,500 square feet of new retail space and 75 new residential condominium units, 19 of which are affordable housing units by agreement with the City of Boston. The garage has been renovated to accommodate approximately 415 vehicles. The Project also included construction of a public memorial garden and other public amenities on the site.

On May 2, 2002, the Agency issued bonds for a total of approximately $195.8 million to fund the construction of the Project, of which $166.8 million and $168.8 million is outstanding as of June 30, 2011 and 2010, respectively. The Agency loaned M/SBRC $20.0 million for the development of the Project, which is still outstanding as of June 30, 2011 and 2010, along with $21.3 million and $19.7 million, respectively, of accrued interest. This Agency loan, including interest accrued, is eliminated in the consolidation in the Agency financial statements.

A separate financial statement for M/SBRC is published and is available upon request.

Summary financial information for M/SBRC is presented below:

Condensed Balance Sheet

	2011	2010
Assets		
Current assets	$ 3,730,474	$ 3,452,587
Deferred outflow interest rate swap	15,972,927	18,216,010
Noncurrent assets	35,902,161	37,392,117
Capital assets, net	121,434,873	125,433,785
Total assets	$ 177,040,435	$ 184,494,499
Liabilities		
Current liabilities	$ 4,969,622	$ 8,081,741
Due to Massachusetts Development Finance Agency	21,343,030	19,743,028
Massachusetts Development Finance Agency note payable-current	20,000,000	18,000,000
Noncurrent liabilities	164,162,799	165,056,868
Deferred interest rate swap	15,972,927	18,216,010
Massachusetts Development Finance Agency note payable-noncurrent	-	2,000,000
Total liabilities	226,448,378	231,097,647
Net deficiency		
Invested in capital, net of debt	(21,041,494)	(18,305,021)
Restricted net assets	5,829,392	6,540,668
Unrestricted deficit	(34,195,841)	(34,838,795)
Total net deficiency	(49,407,943)	(46,603,148)
Total liabilities and net assets	$ 177,040,435	$ 184,494,499

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30,

	2011	2010
Operating revenues	$ 21,677,657	$ 21,585,614
Operating expenses	9,520,969	9,731,281
Depreciation and amortization	4,373,951	4,408,052
Operating income	7,782,737	7,446,281
Nonoperating expenses, net	(10,587,532)	(10,679,546)
Decrease in net deficiency	(2,804,795)	(3,233,265)
Net deficiency - beginning of the year	(46,603,148)	(43,369,883)
Net deficiency - end of the year	$ (49,407,943)	$ (46,603,148)

Condensed Statement of Cash Flows for the years ended June 30,

	2011	2010
Net cash provided by operating activities	$ 10,072,351	$ 10,360,507
Net cash used in capital and related financing activities	(11,310,911)	(12,989,037)
Net cash provided by investing activities	777,176	786,241
Net decrease in cash and cash equivalents	(461,384)	(1,842,289)
Cash and cash equivalents at beginning of year	17,067,664	18,909,953
Cash and cash equivalents at end of year	$ 16,606,280	$ 17,067,664

19. Restatement of Fiscal Year 2010 Balances

On August 5, 2010, the Commonwealth of Massachusetts passed the Senate No. 2582 Act which is an act relative to the economic development reorganization within the Commonwealth of Massachusetts. The bill included legislation which required the merger of the Agency with the Massachusetts Health and Economic Finance Authority ("HEFA") effective October 1, 2010. The Agency's Board of Directors became the governing Board of HEFA effective with the signing of the Act. As a result of the merger, fiscal year 2011 and all prior periods presented in the financial statements have been restated based on the pooling of interest method applied by the Agency. Under the pooling of interest method, the Agency and HEFA are required to be consolidated as of the beginning of the fiscal year in which the merger takes place and all prior periods presented are restated as if the entities were consolidated during those periods.

The schedules below show the restated balances for fiscal year 2010:

Consolidated Balance Sheet

	2010 Agency	2010 HEFA	Adjustments	2010 As Restated
Current assets	$ 223,711,128	$ 18,431,752	$ 7,047,850	$ 249,190,730
Noncurrent assets	445,255,731	12,901,303	(7,047,850)	451,109,184
Total assets	$ 668,966,859	$ 31,333,055	$ -	$ 700,299,914
Current liabilities	$ 22,106,652	$ 1,591,008	$ (1,099,000)	$ 22,598,660
Noncurrent liabilities	208,985,276	1,447,813	1,099,000	211,532,089
Total liabilities	231,091,928	3,038,821	-	234,130,749
Net assets				-
Invested in capital assets, net of debt	87,438,339	24,143	-	87,462,482
Restricted net assets	187,034,930	12,180,091	-	199,215,021
Unrestricted net assets	163,401,662	16,090,000	-	179,491,662
Total net assets	437,874,931	28,294,234	-	466,169,165
Total liabilities and net assets	$ 668,966,859	$ 31,333,055	$ -	$ 700,299,914

The asset adjustments mainly related to the reclassification of the HEFA investments between current and noncurrent assets and the reclassification of the Charitable Trust assets into separate cash and cash equivalents, investments and interest receivable accounts versus showing as one line item assets whose use is restricted.

The liability adjustments mainly related to the reclassification of deferred revenue and other liabilities from current to noncurrent liabilities.

Consolidated Statement of Revenues, Expenses and Changes in Net Assets

	2010 Agency	2010 HEFA	Adjustments	2010 As Restated
Operating revenue	$ 75,617,122	$ 5,708,479	$ (166,184)	$ 81,159,417
Operating expenses	(80,795,024)	(4,949,219)	339,566	(85,404,677)
Net operating income	(5,177,902)	759,260	173,382	(4,245,260)
Nonoperating expenses,net	(8,058,012)	(1,839,532)	2,163,354	(7,734,190)
Capital contributions	(4,321,171)	-	(2,336,736)	(6,657,907)
Decrease in net assets	$ (17,557,085)	$ (1,080,272)	$ -	$ (18,637,357)

The operating revenue adjustments mainly related to the reclassification of income from investments from operating revenue to nonoperating expenses, net. The operating expenses adjustments mainly relate to the reclassification of Charitable Trust grants expense from operating expenses to capital contributions. The nonoperating expenses, net and capital contributions adjustments mainly relate to the reclassification of grant expenses from operating expenses or nonoperating expenses, net to capital contributions.

Consolidated Statement of Cash Flows

	2010 Agency	2010 HEFA	Adjustments	2010 As Restated
Operating activities	$ 8,162,875	$ 2,242,657	$ 251,566	$ 10,657,098
Noncapital financing activities	490,146	-	-	490,146
Capital and related financing activities	(35,796,639)	(18,505)	(2,339,566)	(38,154,710)
Investing activities	28,387,713	(237,753)	5,168,973	33,318,933
Net increase in cash and cash equivalents	1,244,095	1,986,399	3,080,973	6,311,467
Cash and cash equivalents at beginning of yeai	53,438,243	10,445,836	499,805	64,383,884
Cash and cash equivalents at end of year	$ 54,682,338	$ 12,432,235	$ 3,580,778	$ 70,695,351

The cash flow adjustments mainly relate to the reclassification of grant disbursements from investing activities to capital and related financing activities. The Charitable Trust cash and cash equivalents balances were also included in beginning of year and end of year cash and cash equivalents balances rather than showing as a separate restricted cash and investments line item in investing activities in the cash flow statement.

20. Fiduciary Funds

The Agency acts in a fiduciary capacity on behalf of certain non-profit organizations. The Agency administers the receipt and disbursement of assets held for the payment of costs incurred in connection with projects undertaken by borrowing institutions. The investment of bond proceeds is directed by such borrowing institutions.

The following table shows a summary of amounts held in a fiduciary capacity by the Agency as of June 30, 2011 and 2010:

Combined Statements of Fiduciary Net Assets

	2011	2010
Assets		
Cash and cash equivalents	$ 172,217,150	$ 420,768,934
Investments	4,784,915	7,821,575
Interest receivable	-	40,618
Total assets	$ 177,002,065	$ 428,631,127
Liabilities and Net Assets		
Liabilities	$ -	$ -
Net assets held in a fiduciary capacity	177,002,065	428,631,127
Total liabilities and net assets	$ 177,002,065	$ 428,631,127

The following table shows a summary of changes in fiduciary net assets held by the Agency for fiscal years 2011 and 2010:

Combined Statements of Changes in Fiduciary Net Assets

	2011	2010
Additions		
Proceeds from issuance of bonds and leases	$ 137,579,314	$ 394,300,069
Income from investments	706,507	2,321,275
Total additions	138,285,821	396,621,344
Deductions		
Construction costs	379,658,991	712,020,244
Issuance expenses	1,615,892	6,326,480
Repayment of prior issuances	8,640,000	53,529,652
Total deductions	389,914,883	771,876,376
Net decrease in net assets	(251,629,062)	(375,255,032)
Net assets at beginning of year	$ 428,631,127	803,886,159
Net assets at end of year	$ 177,002,065	$ 428,631,127

21. New Markets Tax Credit Program

The Agency, via subsidiary entities, MassDevelopment New Markets LLC ("MDNM") and Mass HEFA New Markets CDE LLC ("HEFA CDE"), was awarded the right to allocate federal New Markets Tax Credits on $176 million and $66 million, respectively, of its investors' investments. Investment opportunities have been made available to banks, corporations, partnerships and funds that invest in MDNM and HEFA CDE; the proceeds of their investments will be reinvested in business and commercial development in low-income census tracts. As of June 30, 2011, the Agency had closed on twelve such transactions.

The Agency has accounted for its 0.01% ownership interests in the CDEs using the equity method of accounting.

The table below is a summary of the Agency's New Markets Tax Credit entities ("CDEs") as of June 30,

Entity	Fiscal Year Closing Date	NMTC Allocation	Purpose	Agency Investment In 2011	Agency Investment In 2010
MassDevelopment New Markets, LLC					
CDE #1 and Fund #1	2007	$ 30,000,000	Capitalize small business lending pool	$ 2,698	$ 2,731
CDE #2 and Fund #2	2007	20,000,000	Construct facility for Fenway Community Health Center, Inc.	2,002	2,001
CDE #3	2006	20,000,000	Rehabilitate historic building on campus of Boston Medical Center	2,326	2,261
CDE #4	2011	9,000,000	Land acquisition and construction of a building for health care organization in Worcester, MA	875	-
CDE #5	2010	5,000,000	Acquisition and rehab historic building in New Bedford, MA	499	500
CDE #6	2011	11,500,000	Land acquisition and construction of a community health center in Lynn, MA	1,144	-
CDE #7	2011	12,000,000	Acquisition and rehab of a historic building for a Boston youth hostel	1,182	-
CDE #8 and Fund #8	2011	8,450,000	Construction of building for wet-lab use with office and classroom space in Worcester, MA	839	-
CDE #9 and Fund #9	2011	26,000,000	Land acquisition and construction of a charter school in Lynn, MA	3,321	-
Massachusetts HEFA New Markets, LLC					
CDE #1	2008	33,000,000	Acquisiton and construction of an ambulatory care building for Boston Medical Center	73	75
CDE #2	2009	11,000,000	Acquisition and redevelopment of building which included an elder care facility in Boston, MA	1,074	1,034
CDE #3	2009	22,000,000	Construction and renovation of hospital facilities for Baystate Total Home Health Care, Inc.	2,180	2,182
		$ 207,950,000		$ 18,213	$ 10,784

As part of the closing of the CDEs, the Agency receives sub-allocation fees from the capitalized funds and such fees are included in bond issuance and New Markets Tax Credit fees in the Consolidated Statement of Revenues, Expenses and Changes in Net Assets as of June 30, 2011 and 2010. The Agency receives such fees as organizational fees for structuring and organizing the sub allocation of the new markets tax credits of the CDEs.

The Agency also receives an annual management fee for services related to managing the operations of the CDEs, including accounting, legal, management, technical and other services, as needed by the CDEs.

The table below summarizes the sub-allocation and annual management fees received by the Agency for fiscal years 2011 and 2010:

Entity	Management Fees 2011	Management Fees 2010 (As Restated)	Suballocation Fee Income 2011	Suballocation Fee Income 2010 (As Restated)
MassDevelopment New Markets, LLC				
CDE #1 and Fund #1	$ 150,000	$ 150,000	$ 28,392	$ 28,392
CDE #2 and Fund #2	100,000	100,000		
CDE #3	100,000	100,000	6,870	6,870
CDE #4	43,267	-	374,000	-
CDE #5	34,500	29,821		-
CDE #6	56,699	-	460,000	-
CDE #7	30,000	-	480,000	-
CDE #8 and Fund #8	7,514	-	338,000	-
CDE #9 and Fund #9	21,306	-	1,040,000	-
Massachusetts HEFA New Markets, LLC				
CDE #1	63,796	63,796	574,554	117,857
CDE #2	20,857	20,857	215,745	39,286
CDE #3	41,800	41,800	461,388	78,571
	$ 669,739	$ 506,274	$ 3,978,949	$ 270,976

As of June 30, 2011 and 2010, management fees of $373,783 and $238,154, respectively, remains unpaid to the Agency, and is included in accounts receivable and other assets on the Consolidated Balance Sheets.

The Agency also receives loan servicing fees from CDE #1 for loan processing services the Agency provides to CDE #1. In fiscal years 2011 and 2010, the Agency earned $57,683 and $31,984, respectively for these services. All amounts were paid to the Agency as of June 30, 2011 and 2010.

The Agency may, from time to time, loan operating cash to the CDEs for professional services and be reimbursed at a later date. As of June 30, 2011 and 2010, $253,983 and $75,014, respectively, remains unpaid to the Agency. Four CDEs also hold $782,000 in an escrow account as security for the Agency's obligations as manager of the entities. These amounts are included in accounts receivable and other assets on the Consolidated Balance Sheets.

22. Legal Matters

The Agency is subject to various legal proceedings and claims that arise in the ordinary course of business. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of the Agency. Please refer to Footnote 23 Subsequent Events.

On or about March 31, 2011, Evergreen Solar Inc. ("EVS") shut down its manufacturing facility located at Lot 2, Barnum Road, Devens (the Project"), in violation of the terms of a certain Ground Lease for the land located at Lot 2 Barnum Road, Devens. This shut down also resulted in the loss of the benefits granted under the terms of the First Amended and Restated Tax Increment Financing Agreement ("TIF") and resulted in a default under the Project Grant Agreement ("Grant Agreement"). All of these agreements were entered into by the Agency and EVS, and dated as of November 20, 2007. There was a dispute between the parties as to the amounts owed to the Agency under the TIF and the Grant Agreement.

On May 19, 2011, the Economic Assistance Coordinating Council decertified the Project and terminated the TIF, resulting in the claw back of $1,501,605 in owed taxes for fiscal year 2011. By the terms of a Forbearance Agreement entered into by the Agency and EVS dated as of May 19, 2011, the $1,501,605 became due no later than December 31, 2011, or earlier upon certain triggering events, including a bankruptcy filing by EVS. Please refer to Footnote 23 Subsequent Events. The $1,501,605 was fully reserved as a receivable by the Agency as of June 30, 2011.

The former Executive Director of HEFA has an employment agreement dated April 15, 2006 ("Employment Agreement") with HEFA which under certain circumstances provides for severance benefits and other employee health related benefits payable to the former Executive Director of HEFA of approximately $650,000. A lawsuit was filed on October 20, 2010 by the former Executive Director of HEFA against the Agency, as successor to HEFA pursuant to Chapter 240 of the Acts of 2010, concerning the rights and obligations under the Employment Agreement. The former Executive Director has asserted breach of contract and related claims against the Agency. The Agency believes the contract is not an enforceable contract, and is going to defend that position vigorously. As a result, no amounts were accrued in the financial statements as of June 30, 2011 and 2010 in connection with this Employment Agreement.

23. Subsequent Events

Management has evaluated subsequent events through October 21, 2011 noting the following events to disclose:

The Massachusetts Health and Educational Facility Authority 401(k) Plan was merged into the Agency's 401(a) defined contribution plan on September 1, 2011. The former Plan accounts are being held as separate accounts in the Agency's 401(a) plan.

On August 15, 2011, EVS filed for bankruptcy. The Agency intends to aggressively pursue in this proceeding repayment of the $1,501,605 in owed taxes for fiscal year 2011. The parties were also in negotiations with respect to the amount owed by EVS to the Agency under the Grant Agreement at the time of the filing. As part of the Bankruptcy Court proceeding, EVS has identified the Grant Agreement as a contract that may be assigned and assumed, with a cure amount of $1,376,664. The Agency believes that it is entitled to full repayment of the grant in the amount of $9,989,000 and filed an objection with the Bankruptcy Court on October 20, 2011.

In October 2011, the Agency closed on two new NMTC transactions, via a subsidiary entity of MDNM. MDNM assigned, via MassDevelopment New Markets CDE#10, LLC ("CDE#10") and MassDevelopment New Markets CDE#11, LLC ("CDE#11"), $14.5 million and $6.5 million, respectively, of its NMTC allocation. Transactions funds for CDE#10 will be used for the acquisition, construction and financing of a performance computing center built using sustainable design principles and fueled by renewable hydroelectric power in Holyoke, Massachusetts. Transaction funds for CDE#11 will be used for financing the redevelopment of a mill building and the construction of a new building in Lawrence, Massachusetts.

To: MassDevelopment Board of Directors

From: Marty Jones, President and CEO
RJ McGrail, Policy and Program Impact Officer

Date: September 13, 2012

Re: MassDevelopment FY12 Annual Performance Report
and Overview of Executive Order 540

Overview

Just a year ago, we set aside several hours on the day of the September Board meeting, to begin a strategic planning process for MassDevelopment. As you may recall, that effort was facilitated by Diane Schmalensee and Dick Eppig of Mass Excellence and expanded to include staff at both the executive and line staff levels. It resulted in the creation of an Organizational Profile for MassDevelopment which summarized the focus and goals of our work and a Business Plan for FY12 which included metrics for measuring our accomplishments.

This effort is aligned with the focus throughout all of state government on performance management. Earlier this year, the Governor directed that all of the Secretariats develop, publish and implement a strategic plan for all departments and their respective reporting agencies and entities. Additionally, the Governor's order directed that each plan establish and operate a performance management system for individual agencies down to the program level. These systems will also roll up to a new statewide office, housed within the Executive Office of Administration and Finance and tasked with strategic planning and performance management.

Similar requirements for all of the economic development departments and quasi-public agencies were included in the Economic Development Legislation of 2010. MassDevelopment has aligned its strategy documents with the Commonwealth's Economic Development Policy and Strategic Plan filed with the Legislature in December 2011.

Following this memo you will find a copy of the FY12 Annual Performance Report for the agency. This report measures progress towards the goals that we established last year. It also outlines some key questions related to each goal. We plan to allow time during the Board meeting for discussion and review of both the performance data and these questions.

Key Elements of Agency Strategic Planning and Approach to Performance Management

1. Strategic Plans

MassDevelopment will develop a strategic plan, which will define mission, identify goals, and determine performance outcome measures to assess success against goals. These plans shall be "demonstrably aligned to the priorities of the Governor" and clearly demonstrate how the planned activities support the Governor's priorities. The agency plan is aligned with the Executive Office of Housing and Economic Development's (EOHED) statewide framework for economic development, *Choosing to Compete in the 21st Century*.

As a reminder, the five "missions" of the statewide economic development plan are:

- Building Talent;
- Supporting the Innovation Economy;
- Empowering Regions;
- Increasing the Ease of Doing Business; and
- Improving Cost Competitiveness.

MDFA programs will overlap most directly with the strategies on the innovation economy, regional empowerment, and cost competitiveness goals.

2. Performance Management and Reporting

The following report is the first iteration of an agency performance measurement system, reporting framework and performance management tool. Moving forward in FY13, the agency will continue its efforts to build on this work by deploying a balanced scorecard. This report, and the work to come in future years, will track outcome measures as well as program outputs to be monitored and reported on. For example, an economic development goal of increased access to capital to develop new housing might be measured by program outputs such as number of new transactions, amount of bonds issues, or ratio of bond investment to private investment leveraged in a particular project.

3. Engagement and Transparency Plans

The Governor's order also requires that the performance management and planning process establish systems allowing for public access, comment and participation in the strategic planning and performance management process. Examples of efforts in this area would include online posting and development of tools that allow the public to access and use information in plans and performance data for increased civic engagement. MassDevelopment's Business Plan and Annual Report will be included on EOHED's website as part of the Office of Performance Management & Oversight (OPMO) ongoing compilation on of data on all public and quasi-public entities engaged in economic development. http://www.mass.gov/hed/economic/eohed/opmo/

Agency staff will develop a plan to further enhance public engagement and transparency in Agency planning and performance measurement.

For additional detail on the full scope of the Governor's Executive Order directing Cabinet Secretaries and their respective agencies and entities can be found at http://www.mass.gov/governor/legislationeexecorder/executiveorder/executive-order-no-540.html.

Attachment A: For FY12 OPMO Report

Massachusetts Development Finance Agency

Agency Totals (FY12)
296 projects
$3,312,678,718 total invested
11,830 jobs created (projected)
759 housing units build or substantially renovated

Bond Financing (FY12)
98 projects
$3,212,426,242 total financed
9,648 jobs created (projected)
426 housing units built or substantially renovated

General Fund Lending (FY12)
26 projects
$27,080,804 total financed
709 jobs created (projected)
318 housing units built

Restricted Fund Lending (FY12)
24 projects
$17,398,565 total financed
258 jobs created (projected)
0 housing units built

Specialized Programs (FY12)
98 projects
$43,430,677 total financed
1,153 jobs created (projected)
0 housing units built

Real Estate Services (FY12 - Includes technical assistance to partners and investments at MassDevelopment owned or operated properties)
37 projects
$12,343,428 total invested
62 jobs created
15 housing units built

MassDevelopment FY12 Strategic Plan Goals			
GOAL	**RESULT[1]**	**TREND**	**KEY QUESTIONS**
Expand Use of Restricted Loan Funds	🟡	⬆️	*Does the increased flexibility of restricted fund loan products achieved in FY12 sufficiently expand use of these programs?*
Increase Role in Housing Production and Preservation	🔴	➡️	*When should evaluation of the impact/effectivness of new multifamily lending product occur and what are the segments of the housing market a specialized lending program like this can meet?*
Increase Support for Gateway Cities	🟢	⬆️	*Is there a need for additional incentives that could stimulate more investment in Gateway Cities?*
Strengthen Role in Redevelopment of Surplus Public Properties	🟢	⬆️	*What types of surplus property redevelopment maximize the agency's impact on the Commonwealth's economy?*
Focus General Fund Loan Products on Industry Demand/Needs	🟡	⬆️	*What are other strategies MassDevelopment can use to continue to stay connected to market/industry/sector demand?*
Expand Financing and Assistance to Manufacturing Sector	🔴	➡️	**In-depth manufacturing sector discussion planned for October BOD meeting, including overview of new manufacturing programs and products from jobs bill.**

🟢	🟡	🔴	⬆️	➡️	⬇️
***KEY Goal Fully Completed**	**Goal Partly Completed**	**Goal Not Completed, Action Under Way**	**Trend Positive**	**Trend To Monitor**	**Trend Negative**

MassDevelopment FY12 Strategic Plan Goals

GOAL	RESULT[1]	TREND	KEY QUESTIONS
Support the Expansion of the Defense Sector			*How will installation-specific plans move beyond maintenance of mission/analysis of current impact to expansion of sector?*
Align Financial Reporting/Cost Accounting to Agency Program Areas			**Salary allocation data were used in development of FY13 budget. Additional review of process to be conducted in Q3 2013 (after full year of salary allocation data has been entered and validated).**
Measure and Report on Mission Effectiveness			*Under the current reporting system, is the BOD receiving information necessary to exercise its oversight of the agency effectively? How can the agency progress from measurement of program outputs to outcome measurement that shows attainment of mission and drives efficient and effective management?*
Make Devens Financially Self-Sustaining			*What are additional strategies the agency can deploy to increase revenue in Devens to ensure sustainability?* ***(Note: In-Depth Devens discussion planned for November BOD meeting.)***
Make MassDevelopment Operate More Efficiently and Expand Use of Technology			*Are there program efficiencies, technology solutions, or other strategies being used in your businesses that might increase MassDevelopment's efficiency?*
Create Three Year Financial Plans for General Fund and Devens Fund			*How can agency recapitalize funds to ensure ability to continue to impact Massachusetts economic growth?*

***KEY Goal Fully Completed**	**Goal Partly Completed**	**Goal Not Completed, Action Under Way**	**Trend Positive**	**Trend To Monitor**	**Trend Negative**

[1] In all results, jobs created are from two categories - projected jobs and construction jobs. Projected jobs are those jobs that the borrower expects to create over a three (3) year period and are provided by borrower. Construction jobs are calculated using an IMPLAN-based calculator developed by the University of Massachusetts Donahue Institute and using project costs as inputs.

MassDevelopment FY12 Strategic Plan Goals

Goal 1 - Expand the use of restricted funds (Brownfields & ETF).

GOAL	ACTION	MEASUREMENT	RESULTS	TREND
		# of transactions & $ invested	**FY12 Expanded Restricted Funds**(Brownfields & ETF) * 44 transactions * $13,041,570 **FY11 Restricted Funds** (Pre-Exp)(Brownfields & ETF) * 46 transactions * $13,428,348	
Brownfields Fund	Create 5 new/expanded products.	Board approval of capabilities # of projects using new capabilities	*BOD Approval - February 2012* **FY12 Brownfields Redev. Fund** * 39 transactions * $6,241,571 total invested **FY 11 Brownfields Redev. Fund** *42 transactions *$6,665,848 total invested # projects (with new products) - Pad Ready - 0 BF Dist. Redev. Plan. - 0 Above Ground Program - 1 Expanded Use - 5 Forgiveable Loans - 0	Brownfields FY13 Total Pipeline 34, $6,641,324 FY13 Pipeline projects (with new products) Pad Ready - 4 BF Dist. Redev. Plan. - 1 Above Ground Program - 4 Expanded Use - 10 Forgivable Loans - 1 *FY12 approvals to close in FY13 under new products: 20
Emerging Technology Fund	Create new term working capital loan product and Equity investment program	Board approval of new capabilities & programs; # of companies financed, projected job creation	*BOD Approval - January 2012* **FY12 Emerging Tech. Fund** * 5 transactions * $6,800,000 total invested **FY11 Emerging Tech. Fund** *4 transactions *$6,762,500 total invested # companies financed - 5 # projected jobs created - 246 # projected jobs created per financing - 49 Cost per projected job created - $27,642 *3 of 5 FY12 ETF closings were term working capital totalling $2.3M *BOD Approval -March 2012* $5M equity investment to MV	*ETF FY13 Pipeline - 5 possible projects, up to $9,500,000 *Anticipated 50%-50% split between expanded and original products in FY13 pipeline *Marketing efforts to offer new ETF product to smaller and less capital intensive companies ongoing *MassVentures equity investment agreement still in process, close to finalization in Q1 FY13
HEFA Charitable Trust	Develop strategy for Trust use & amendments needed to Trust documents.	Board approval of strategy; request court approval.	*BOD Approval - May 2012* FY12 HEFA Charitable Trust Grants # grants - 10 $ invested - $248,649	*Agency in conversations with Attorney General to move forward and on track with end of CY goal for HEFA trust changes Court approval for changes - Pending

MassDevelopment FY12 Strategic Plan Goals

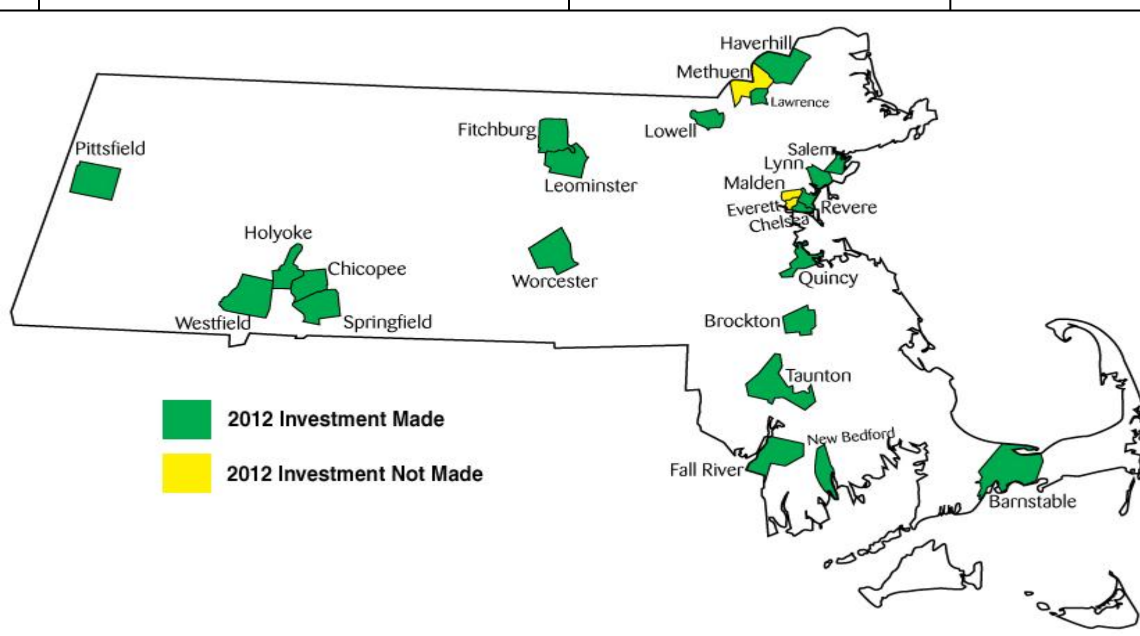
Goal 2 - Increase MassDevelopment's role in housing production and preservation.

ACTION	MEASUREMENT	RESULTS	TREND
Create multifamily housing lending program. Strengthen working relationship with DHCD & other housing quasi-publics.	Board approval of multifamily program; # of projects and units; track by Regions; # affordable units		
		BOD Approval - February 2012	
		FY12 Totals(Bonding + Lending)	
		$ invested - $71,497,500	* Regular coordination with state and other quasi partners is ongoing (coordinated by DHCD)
		# projects - 11	* High demand for housing bond programs forecasted FY13
		# units - 885	*Driven by high demand for, and tight supply of, affordable housing subsidy programs at DHCD
		# market - 302	* Bonds focused in FY12 on Boston market
		# affordable units - 583	* In addition to Boston deals, additional geographic mix of deals in the program (3 gateway city projects, 1 rural)
		# preservation - 507	* Engagement in and sponsorship of November 2012 DHCD housing conferfence
		# new - 378	
		FY12 Bonds [1]	
		$ invested - $67.6M (not including 2 refis)	*Housing pipeline for tax-exempt bonds is approaching 20 deals
		# projects - 8	(Above average level as compared to past years).
		# units - 567	
		# market - 0	
		# affordable units - 567	
		# preservation - 507	
		# new - 60	
		FY11 Bonds [1]	
		$ invested - $123,300,000	
		# projects - 9	
		# units - 1,174	
		# market - 50	
		# affordable units - 1,124	
		# preservation - 1040	
		# new - 134	
		FY12 Lending (new programs)	
		$ invested - $3,897,500	
		# projects - 3	*One multi-family housing deal in pipeline targeting September 2012 BOD approval. ($2M, 48 units, 36 market/12 affordable ,48 new/0 preservation)
		*Armbrook	
		*Bolton	
		*Riverview	
		# units - 318	
		# market - 302	
		# affordable units - 16	
		# preservation - 0	
		# new - 318	
		Assisted Living - 51 units (market rate)	
		*In FY 11, No lending product for these project types.	

[1] FY11 and FY12 bond transactions reported as results in this goal do not include refinancings.

MassDevelopment FY12 Strategic Plan Goals

Goal 3 - Increase support for Gateway Cities.			
ACTION	MEASUREMENT	RESULTS	TREND
Coordinate work with EOHED Gateway Cities staff.		**FY12**	* Investments in 88% of Gateways in FY 12 (21/24)[1]
	# of projects	# of projects - 81	*Current lending programs pipeline includes 20+ leads in Gateway Cities
	$ invested in Gateway Cities	$ invested - $591,999,566 (finance programs + real estate)[2]	* Establishment of Taunton Development/MassDevelopment Corporation to complete redevelopment of Dever School campus at total project cost of $27.3M
	# jobs created	# projected jobs created - 1,156	* Brownfields Support Team prospects for upcoming round include 3 possible Gateway Cities
	#TAPs/ULI (Technical Advisory Panels with Urban Land Institute),	#TAPs - 4	
	# communities receiving technical assistance	# Technical Assistance engagements - 5	
		* Series of CEO meetings with Mayors of Gateway Cities	
		FY11	
		# of projects - 64	
		$ invested - $428,776,518[2]	
		# projected jobs created - 2,108	



[1]In addition to these formal investments or other engagements with Gateway cities, the agency provided informal assistance to the City of Everett.

[2]Note that these investment totals include all bond and lending transactions in Gateway cities, including refinancing of previous bond issuances.

MassDevelopment FY12 Strategic Plan Goals

Goal 4 - Strengthen MassDevelopment's role in redevelopment of state surplus public properties.

ACTION	MEASUREMENT	RESULTS	TREND
Initiate regular meetings with DCAM Commissioner & staff.[1] Create new models for DCAM/MDFA collaboration on properties.	# of deals, # of acres, $ invested	# of deals - 2 Acreage acquired - 225 $ invested - $3,372,047 Acreage redeveloped - 24	* Due diligence on state surplus properties including Worcester courthouse, Lawrence Registry of Deeds, Belchertown State School, Olmstead Green, Taunton State Hospital, and MMR School Buildings (in FY12)
		Taunton *Acreage acquired - 172 *Acreage redevloped - 0 *% redevloped - 0% *Infrastructure Complete - 0% *FY12 $ invested - $783,117	* Establishment of Taunton Development/MassDevelopment Corporation to complete Dever school campus at total project cost of $27.3M *First infrastructure improvement (road) underway
		Northampton *Acreage acquired - 53 *Acreage redeveloped - 24 *% redeveloped - 45% *Infrastructure Complete - 60% *3 housing units (under construction) FY12 $ invested - $2,588,930	*Positive sales trend for single family housing units *First retail and office development likely *Continuing challenge of reuse of existing structures on development site

[1] Quarterly DCAM/MDFA meetings have resulted in increased collaboration with DCAM.

MassDevelopment FY12 Strategic Plan Goals

Goal 5 - Focus general fund loan products on industry demands/needs.

ACTION	MEASUREMENT	RESULTS	TREND
Identify needs through discussions with industry groups;	BOD approval of new products	BOD approval- January 2012	
MDFA regional staff; businesses	# of new product closings	*FY 12 General Fund Lending* # closings - 26 total $ invested - $27,080,805 Projected jobs created - 709 (new + construction) *FY12 New Lending Products* * Multifamily housing - 3 * Commercial RE - 3 * Real Estate Improvement Loan - 0 *FY12 Enhanced Lending Products* * Equipment loans - 4 * Guarantees - 1 * Green - 2 * Predevelopment - 1 * Community Service - 3	* FY11, General Fund had 53 closings for $30,591,238 * FY13 pipeline has 22 deals at 50% or greater probability for $17M+
		FY 11 General Fund Lending # closings - 14 total $ invested - $14,231,233 Projected jobs created - 393 (new + construction)	

MassDevelopment FY12 Strategic Plan Goals

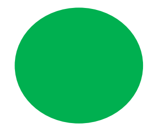
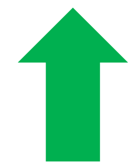
Goal 6 - Expand financing and technical assistance to manufacturing sector.

ACTION	MEASUREMENT	RESULTS	TREND
Create new/enhanced programs for manufacturers.	# of manufacturing projects financed and $ invested,	*FY 12 Projects Financed* 25	* MassDevelopment & Council of Development Finance Agencies working actively on legislative changes to tax exempt industrial development bonds that, if implemented, would likely increase bond business.
Sponsorship of 2 MEP technical assistance programs approved by BOD.		$ invested - $40,206,178	*Hiring of manufacturing VP to formalize focus on sector activity
		# projected jobs created - 763 (new + construction)	* Implementation of Manufacturing Futures Fund
		FY 11 Projects Financed 28	* Participation in Advanced Manufacturing Collaborative
		$ invested - $40,653,928 # projected jobs created - 856 (new + construction)	
	# of companies participating in 2 sponsored MEP programs[1]	# of completed MEP programs - 3	* VOPs - 4 in process, others in pipeline
		* VOPs - 3 * ISOs - 0	* ISO - 7 signed to start in fall
			Manufacturing sector discussion planned for October BOD meeting

[1]Sponsored MEP programs include the Value Opportunity Profile (VOP™) and the ISO Collaborative Program. The (Value Opportunity Profile) is a software-facilitated business assessment tool, that helps private companies by generating a customized list of initiatives to build a stronger, higher quality, and more valuable company, positioned to support long-term sustainable growth, and to maximize its value. The MEP ISO Collaborative Program allows medium to small size companies to undertake the ISO 9001-2008 certification process with the support from a team of experts at an affordable cost.

MassDevelopment FY12 Strategic Plan Goals

Goal 7 - Support the expansion of the defense sector in the Commonwealth.

ACTION	MEASUREMENT	RESULTS	TREND
			
Develop base economic data.	Completion of economic analysis & draft operational plans.	*Economic analysis - (6/12)	*Hiring of defense SVP to formalize focus on sector
Contact bases re operational obstacles/opportunities.	Hold prime/subs event.	*Prime/subs event - (June 2012)	*Key role in Lt. Governors Task Force
Work with DTI & SBANE to link primes & subs.		*Draft operational plans In progress	*Continued coordination with congressional delegation and Administration
		*Participated in Task Force tours/fact-finding at all 6 military installations	*Rollout of operational plans for installations in fall of 2012

MassDevelopment FY12 Strategic Plan Goals

Goal 8 - Align financial reporting & cost accounting to Agency program areas.			
ACTION	MEASUREMENT	FY12 RESULTS	TREND
Define key products/programs & link with expense categories. Create new categories as needed and revise salary allocations accordingly.	Implement program and product reporting that accurately reflects hourly/salary allocations; utilize data in FY13 budgeting.	Fund allocations complete, implemented and used in FY13 budget development.	*Finance reviewing the allocation reports and working on next steps. *Looking at technology infrastructure for more efficiencies and automation.

MassDevelopment FY12 Strategic Plan Goals

Goal 9 - Measure and report on MassDevelopment's mission effectiveness by program area.			
ACTION	MEASUREMENT	FY12 RESULTS	TREND
Quarterly reporting to Board on Finance Programs results launched; Develop metrics for reporting Real Estate Department results.	Present ongoing standardized reporting to board for all Departments.	Standardized reporting to BOD: *Finance Programs (quarterly) *Real Estate (portfolio reports and RE committee review biannually) *CEO's Monthly Report (Includes HR/OD, Legal, and Legislative/Defense Sector) *Marketing & Communications (monthly) *Devens (monthly) *Finance & Administration	*Establishment of standing quarterly meeting of board Finance & Administration and Audit committees *Development of real estate metrics, quantitative measure of techinical assistance ongoing and on target *Hiring of Policy and Program Impact Officer *Implementation of more comprehensive performance management system and balanced scorecard *Use of data as a decisionmaking and management tool, not just a reporting function

MassDevelopment FY12 Strategic Plan Goals

Goal 10 - Make Devens a financially self-sustaining entity.

ACTION	MEASUREMENT	RESULTS	TREND
Increase sources of revenue	Square feet of new development constructed	Square feet new dev. constructed: 23,200 ft^2	*Secured town approvals to permit E911 facility to improve efficiency, reduce expenses, and generate additonal revenue
Manage/reduce expenses	% infrastructure complete for full buildout	75-80% infrastructure complete for full buildout	*Devens Finance Committee to continue to monitor Devens operations for additional efficiencies
	Total $ invested	*Total $ invested: $15,825,334	*Targets for additional operational efficiencies (Veterans services and Education contracts)
	% reduction in annual deficit	*% reduction in annual deficit - - 56%[1]	***Devens sustainability discussion at November BOD meeting**
		*Devens operational efficiencies accounting for $748,000 in savings in FY12	
		*$2,807,287 total savings from refinancing of electric bond in FY12	

[1]Deficit calculations for FY12 include one time revenue related to Evergreen settlement.

MassDevelopment FY12 Strategic Plan Goals

Goal 11 - Make MassDevelopment operate more efficiently & expand use of technology.

ACTION	MEASUREMENT	RESULTS	TREND
*Solicit ideas from Efficiency Committee *Assess email archiving *Assess new loan ledger *Review processes *Allocate staff time by product	# Committee recommendations implemented Quantify overall efficiencies/time savings	* # Committee recommendations implemented - 2 *Email archiving implemented *4 loan ledger vendor presentations to date *Staff time allocation implemented	*Loan ledger implementation for FY13 *Procurement process review for Q2 FY13 *Records retention process for review FY13 *Overall efficiencies / time savings - Analysis ongoing of staff time allocation data *Project management solution for real estate programs for FY13

MassDevelopment FY12 Strategic Plan Goals

Goal 12 - Create three-year financial plans for General Fund and Devens Fund.

ACTION	MEASUREMENT	RESULTS	TREND
Identify key funds & sources.	Model current budget.	Plans presented to BOD - 5/12	*Discussion of recapitalization strategies for restricted funds
Determine acceptable levels of liquidity per fund.	Quantify strategic objectives.	*Models - Y	*Ongoing strategic review with BOD
Project $ in- & out-flows by product, program, & fund.	Identify income sources & assets to replenish planned outflows.	*Quantify strategic objectives - Y	*Modeling of loan portfolio and alternative strategies for recapitalization of the general fund in FY13
Evaluate specific 3 year plan in context of longer term projections (10 years).	Present to Board.	*Identify income sources & assets to replenish planned outflows - Y	
		*Restricted funds report on anticipated cashflow to BOD biannually	

MassDevelopment FY13 Business Plan Goals		
GOAL	**ONGOING GOAL FROM FY12**	**NEW FY13 GOAL**
1. Create and retain jobs.		✓
2. Strengthen and champion economically-challenged communities including Gateway Cities.	✓	
3. Build out Devens and move it toward self-sustainability.	✓	
4. Provide access to capital for businesses and non-profits throughout the Commonwealth.	✓	
5. Work with federal, state, local, nonprofit, and private partners to strengthen the Commonwealth's defense sector.	✓	
6. Support manufacturing.	✓	
7. Support innovation and entrepreneurship.		✓
8. Support regional development through infrastructure investments and local empowerment.		✓
9. Increase the ease of doing business in the Commonwealth.		✓
10. Address Massachusetts cost competiveness.		✓

Note: Goals 7 - 10 align with the Commonwealth's goals outlined in "Choosing to Compete in the 21st Century"