

Massachusetts Life Sciences Center

(A Component Unit of the Commonwealth of
Massachusetts)

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

For the Years Ended June 30, 2021 and 2020

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RSM US LLP

Independent Auditor's Report

Board of Directors
Massachusetts Life Sciences Center

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the fiduciary activity of the Massachusetts Life Sciences Center (the Center), a component unit of the Commonwealth of Massachusetts, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

The Center has loan agreements within the Life Sciences Investment Fund, established under Section 24 of Massachusetts General Laws Chapter 123 of the Acts of 2006, as well as convertible notes. Certain of those loan agreements include warrants and convertible features that qualify as reportable derivative instruments under Statement No. 53 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Derivative Instruments*. We were unable to obtain sufficient appropriate audit evidence as it relates to the fair value of the warrants and convertible notes held by the Center as of June 30, 2021 and 2020, as financial information to support valuation was not readily available. Consequently, the Center has not recognized or disclosed any values associated with these unexercised warrants or convertible features as the financial effects of recognizing and disclosing such information are not reasonably estimable. In our opinion, recognition and disclosure of this information is required by GAAP.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the fiduciary activity of the Massachusetts Life Sciences Center as of June 30, 2021 and 2020, and the respective changes in the financial position and cash flows, where applicable, for the years then ended in accordance with GAAP.

Emphasis of Matter

As discussed in Note 2 of the accompanying financial statements, the Center adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*. Accordingly, the Neuroscience Consortium Custodial Fund has been presented as a separate fiduciary fund. Our opinion has not been modified with respect to this matter.

Other Matters

Required Supplementary Information

GAAP requires that the Management's Discussion and Analysis on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2021, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

RSM US LLP

Boston, Massachusetts
September 29, 2021

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

Management's Discussion and Analysis (Unaudited)

As the management of the Massachusetts Life Sciences Center (the Center), we offer the following narrative overview and analysis of the financial activities of the Center for the fiscal years ended June 30, 2021, 2020 and 2019. This unaudited management discussion and analysis should be read in conjunction with the audited financial statements and the notes thereto, which follow this section.

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

On June 16, 2008, the *Life Sciences Act* enacted by the Massachusetts Legislature was signed into law by Governor Deval Patrick. The Commonwealth committed to investing \$1 billion over a 10-year period to create jobs, drive innovation and promote biomedical breakthroughs that improve people's lives. The Center is the steward of the \$1 billion and uses three statutory funding vehicles to achieve the Commonwealth's mission: the Life Sciences Investment Fund (the Investment Fund), the Capital Program and the Life Sciences Tax Incentive Program.

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

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

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

Financial highlights: Fiscal year 2021 is the 13th year of the initiative and reflects a year of significant operating activities of the Center as grants were made both from the Investment Fund and Capital Program and a 12th round of awards under the Life Sciences Tax Incentive Program were granted. This fiscal year represents the third year of activities under the 2018 reauthorization.

Investment fund: Section 24 of Chapter 123 of the Acts of 2006 established the Massachusetts Life Sciences Investment Fund to be administered by the Center to finance its activities. The Life Sciences Act of 2008 contemplates an annual appropriation from the legislature totaling \$250 million over 10 years. The Investment Fund is also to be used to support the administrative expenses and investment in property and equipment of the Center.

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Management's Discussion and Analysis (Unaudited)

In fiscal year 2021, the Center incurred \$8.1 million of grant expense through the Investment Fund, compared to \$6.8 million of grant expense in fiscal year 2020, and \$5.9 million of grant expense in fiscal year 2019. The expenses were for research grants, workforce development programs and programs that support innovation in life sciences. The \$1.3 million increase from fiscal year 2021 to 2020 is due to timing of awards, as well as increased programming activities to support economic recovery. The \$0.9 million increase from fiscal year 2020 to 2019 is due to increased programming activities, including additional programs deployed for COVID-19 pandemic response. Remaining payment for commitments as of June 30, 2021, on the outstanding investment fund grants is \$9.7 million.

Capital program: The Capital Program was created by the *Life Sciences Act* and is for municipalities and nonprofit institutions to construct and/or renovate buildings, purchase equipment, make upgrades to roads, sewer lines and other infrastructure that supports growth in the life sciences sector. *The Life Sciences Act* provides for \$500 million to the Capital Program and an additional \$473 million was provided by the reauthorization. The Capital Program is funded by the Commonwealth.

In fiscal year 2021, the Center incurred \$52.8 million of grant expense in the Capital Program compared to \$28.4 million of grant expense in fiscal year 2020, and \$16.6 million of grant expense in fiscal year 2019. The \$24.4 million increase from fiscal year 2021 to 2020 is due to timing of award expenditures. The \$11.8 million increase from fiscal year 2020 to 2019 is due to increased programming activities and timing of award expenditures. Remaining payment for commitments as of June 30, 2021, on the outstanding Capital Program grants is \$53.2 million.

The Life Sciences Act also provides for a Life Sciences Education Fund for providing grants for purchasing or leasing equipment to train students in life sciences and research. In fiscal year 2021, the Center incurred \$217 thousand expense. The Center incurred \$20 thousand and \$1.0 million of expense in fiscal years 2020 and 2019, respectively.

Life Sciences Tax Incentive Program: The Life Sciences Tax Incentive Program was created by the *Life Sciences Act* and allows the Center to award tax incentives to companies at every stage of development on behalf of the DOR. The Center has the ability to award 10 different tax incentives with a cumulative cap of \$25.0 million per year for 10 years. The reauthorization increased the annual cap to \$30 million for the next five years. The tax incentives have no financial impact on the Center. The Center awarded \$19.5 million to 28 companies in fiscal year 2021, \$19.5 million to 35 companies in fiscal year 2020, and \$20 million to 27 companies in fiscal year 2019. The Center launched a new tax incentive program for Angel Investors in fiscal year 2021 and awarded \$474 thousand of tax credits to 49 individuals.

Investment income: Investment income in fiscal year 2021 was \$126,737, compared to \$516,034 in fiscal year 2020, and \$730,455 in fiscal year 2019. Investment income relates primarily to interest earned throughout the fiscal year on the Center's cash and cash equivalent balance. The decrease from 2021 to 2020 is due to decrease in interest rates. The decrease from 2020 to 2019 is due to decrease in interest rates.

Administrative expenses and investments in property and equipment: In accordance with the *Life Sciences Act*, administrative expenses and purchases of property and equipment are provided by the Investment Fund. In fiscal year 2021, the Center incurred \$3.3 million of administrative expenses and purchases of property and equipment. In fiscal year 2020 and 2019, the Center incurred \$3.6 million of administrative expenses and purchases of property and equipment each year. The decrease in expenditures from 2021 to 2020 is primarily due to open positions as well as savings from travel, tradeshow and administrative expenses as all staff continued to work remotely during the fiscal year due to the pandemic. The relatively consistent balance in expenditures from 2020 to 2019 is primarily due to open positions offset by increased professional and consulting fees relating to legal and consulting activities relating to the Center's Seed Fund program as well as increased IT costs.

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Management's Discussion and Analysis (Unaudited)

For the fiscal years ended June 30, 2021, 2020 and 2019, the headcount of the Center at the end of the fiscal year was 19, 18 and 23, respectively.

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

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

The statements of net position present the financial position of the Center as of June 30, 2021 and 2020. It provides information about the nature and the number of resources (assets), plus deferred outflows (as applicable), obligations (liabilities), plus deferred inflows (as applicable) and net position.

The statements of revenues, expenses and changes in net position present the changes in net position over the course of the years ended June 30, 2021 and 2020. The change in net position may be useful in assessing whether the financial position improved or deteriorated for the year.

The statements of cash flows present the cash activities segregated by four major cash flow categories: operating activities, noncapital financing activities, capital and related financing activities, and investing activities. This statement may be useful in determining the changes in liquidity and in understanding how cash and cash equivalents were used during the years ended June 30, 2021 and 2020.

Fiduciary activities are used to account for resources held for the benefit of parties outside of the Center. These activities are excluded from the business-type activities because the resources of these funds are restricted and cannot be used to finance the Center's operations. The fiduciary activities of the Center include the activities of the Massachusetts Neuroscience Consortium (the Consortium), a collaboration between seven global pharmaceutical companies. The Center is not a member of the Consortium. The financial burden and administrative control do not reside with the Center. The designated members of the Consortium are responsible for all decisions regarding disbursement of funds. The Center acts solely as a custodian of the Consortium funds which are segregated in a separate bank account, the Center does not receive any fees for custodial services provided.

The fiduciary activities are reported in the statements of fiduciary net position and the statements of changes in fiduciary net position. The statement of fiduciary net position is a point-in-time snapshot of the amount the Consortium have accumulated in net assets to pay for future benefits and any liabilities that are owed as of the statement date. The statement of changes in fiduciary net position presents the additions and deductions for the fiscal year.

Notes to the basic financial statements provide additional information that is essential to get a full understanding of the data provided in the basic financial statements.

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Management's Discussion and Analysis (Unaudited)

Financial summary: The following summarizes the Statement of Net Position and Revenue, Expenses and Changes in Net Position for fiscal years 2021, 2020 and 2019:

Statement of Net Position

	June 30, 2021	June 30, 2020	June 30, 2019
Assets			
Current assets:			
Current assets	\$ 61,329,960	\$ 66,172,578	\$ 44,325,828
Assets held on behalf of Neuroscience Consortium	-	-	1,841,060
Noncurrent assets	1,664,205	1,400,699	464,543
Capital assets, net	51,230	92,990	113,968
Total assets	<u>\$ 63,045,395</u>	<u>\$ 67,666,267</u>	<u>\$ 46,745,399</u>
Liabilities:			
Current liabilities	\$ 32,511,373	\$ 13,866,563	\$ 10,366,539
Noncurrent liabilities	84,500	16,170,876	2,052,060
Total liabilities	<u>32,595,873</u>	<u>30,037,439</u>	<u>12,418,599</u>
Net position:			
Net investment in capital assets	51,230	92,990	113,968
Unrestricted	30,398,292	37,535,838	34,212,832
Total net position	<u>30,449,522</u>	<u>37,628,828</u>	<u>34,326,800</u>
Total liabilities and net position	<u>\$ 63,045,395</u>	<u>\$ 67,666,267</u>	<u>\$ 46,745,399</u>

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

	June 30, 2021	June 30, 2020	June 30, 2019
Revenues and expenses:			
Operating revenues	\$ 55,561,452	\$ 30,108,646	\$ 18,031,944
Operating expenses	(62,867,495)	(37,322,652)	(26,413,376)
Operating loss	<u>(7,306,043)</u>	<u>(7,214,006)</u>	<u>(8,381,432)</u>
Nonoperating revenues	126,737	516,034	730,455
Capital contributions	-	10,000,000	10,000,000
(Decrease) increase in net position	<u>\$ (7,179,306)</u>	<u>\$ 3,302,028</u>	<u>\$ 2,349,023</u>

The Center's net position decreased \$7.2 million, approximately 19%, for the fiscal year ended June 30, 2021, as compared to an increase of \$3.3 million, approximately 10%, for the fiscal year ending June 30, 2020, and \$2.3 million, approximately 7%, for the fiscal year ending June 30, 2019.

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The changes in net position are primarily due to the Center's operating expenses exceeding operating revenues offset by capital contributions appropriated from the legislature for the Center's investment fund. There were no appropriations from the legislature during fiscal year 2021. The Center received \$10.0 million of appropriations in fiscal years 2020 and 2019. The Center ended the year with total net position of \$30.4 million as of June 30, 2021, \$37.6 million as of June 30, 2020, and \$34.3 million as of June 30, 2019.

Liquidity of the Investment Fund: From inception through June 30, 2021, the Investment Fund has received appropriations from the Commonwealth of \$145.9 million. In addition, the Center has earned investment income of \$4.5 million and collected \$27 million through loan repayments, sponsorship, insurance proceeds and corporate consortium revenues for total inflows of \$177.4 million. The Center reserves all the funds required for a grant or loan commitment at the time of the Board's authorization. From inception through June 30, 2021, the Center has disbursed or reserved \$163 million resulting in \$14.4 million of available funds as of June 30, 2021.

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

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Statements of Net Position
June 30, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,320,373	\$ 14,574,013
Accounts receivable	50,531	659
Grant reimbursement receivable from Commonwealth of Massachusetts	5,320,853	-
Loans receivable, net	590,000	1,444,000
Interest receivable, net	412,014	384,206
Prepaid expenses and other current assets	450,542	138,024
Assets committed under programs and awards:		
Cash and cash equivalents	40,185,647	49,631,676
Total current assets	61,329,960	66,172,578
Non-current assets:		
Loans receivable, net	217,699	632,711
Interest receivable, net	417,621	516,063
Convertible notes receivable	1,028,885	251,925
Net property and equipment	51,230	92,990
Total noncurrent assets	1,715,435	1,493,689
Total assets	\$ 63,045,395	\$ 67,666,267
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	\$ 323,609	\$ 324,863
Due to Neuroscience Consortium	1,376	-
Grants payable and accrued grant expense	32,186,388	13,541,700
Total current liabilities	32,511,373	13,866,563
Noncurrent liabilities:		
Unearned revenue	84,500	16,170,876
Total noncurrent liabilities	84,500	16,170,876
Total liabilities	32,595,873	30,037,439
Net Position		
Net investment in capital assets	51,230	92,990
Unrestricted	30,398,292	37,535,838
Total net position	30,449,522	37,628,828
Total liabilities and net position	\$ 63,045,395	\$ 67,666,267

See notes to financial statements.

**Massachusetts Life Sciences Center
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**Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2021 and 2020**

	2021	2020
Operating income:		
Capital program revenues from Commonwealth of Massachusetts	\$ 54,292,605	\$ 28,439,914
Grant revenues	257,277	266,582
Sponsorship	-	4,000
Interest income	1,011,570	1,398,150
Total operating income	55,561,452	30,108,646
Operating expenses:		
Grant expense	60,976,385	35,239,303
Salary and related employee expenses	2,143,736	2,313,406
Professional and consulting fees	352,156	429,366
Communications programs, sponsorships and contributions	118,767	137,246
General and administrative expenses	605,576	656,855
Loan loss reserve recovery and write off	(1,377,448)	(1,504,630)
Depreciation	48,323	51,106
Total operating expenses	62,867,495	37,322,652
Operating loss	(7,306,043)	(7,214,006)
Non-operating revenues:		
Investment income	126,737	516,034
Total nonoperating revenues	126,737	516,034
Loss before capital contributions	(7,179,306)	(6,697,972)
Contributions from the Commonwealth of Massachusetts	-	10,000,000
(Decrease) increase in net position	(7,179,306)	3,302,028
Net position:		
Beginning of year	37,628,828	34,326,800
End of year	\$ 30,449,522	\$ 37,628,828

See notes to financial statements.

**Massachusetts Life Sciences Center
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**Statements of Cash Flows
Years Ended June 30, 2021 and 2020**

	2021	2020
Cash flows from operating activities:		
Receipts for reimbursements from the Commonwealth	\$ 33,001,376	\$ 52,766,735
Payments for grants	(42,357,947)	(31,711,352)
Payments for salary and related employee expenses	(2,195,655)	(2,282,563)
Payments for professional consulting fees	(352,156)	(429,366)
Payments for general and administrative expenses	(554,289)	(733,137)
Payments for communication programs, sponsorships and contributions	(118,767)	(137,246)
Receipts for grant revenues	119,535	227,924
Receipts for loan interest income	1,048,676	664,344
Receipts for sponsorships	-	4,000
Net cash (used in) provided by operating activities	(11,409,227)	18,369,339
Cash flows from capital and related financing activities:		
Receipt of contributions from the Commonwealth of Massachusetts	-	10,000,000
Net cash provided by capital and related financing activities	-	10,000,000
Cash flows from investing activities:		
Purchase of property and equipment	(6,563)	(30,127)
Issuance of convertible notes	(1,000,000)	(250,000)
Receipt of repayment of loans	2,646,460	1,110,123
Receipt of investment income	69,661	516,034
Net cash provided by investing activities	1,709,558	1,346,030
Net (decrease) increase in cash and cash equivalents	(9,699,669)	29,715,369
Cash and cash equivalents:		
Beginning of year	64,205,689	34,490,320
End of year	\$ 54,506,020	\$ 64,205,689
Reconciliation of cash flows from operating activities:		
Operating loss	\$ (7,306,043)	\$ (7,214,006)
Adjustments to reconcile net operating loss to net cash (used in) provided by operating activities:		
Depreciation expense	48,323	51,106
Loan loss reserve	(1,377,448)	(1,504,630)
Loan interest reserve	(686,137)	(1,021,373)
Investment gains/losses	57,076	-
Changes in assets and liabilities:		
Accounts receivable	(49,872)	24,341
Grant reimbursement from Commonwealth	(5,320,853)	8,303,945
Interest receivable	756,770	289,490
Convertible note interest receivable	(33,528)	(1,925)
Prepaid expenses and other current assets	(55,949)	(17,509)
Accounts payable and accrued expenses	122	(27,927)
Grants payable and accrued grant expense	18,644,688	3,527,951
Unearned revenues	(16,086,376)	15,959,876
Total adjustments	(4,103,184)	25,583,345
Net cash (used in) provided by operating activities	\$ (11,409,227)	\$ 18,369,339

See notes to financial statements.

**Massachusetts Life Sciences Center
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**Fiduciary Activities - Neuroscience Consortium Custodial Fund
Statements of Fiduciary Net Position
June 30, 2021 and 2020**

	2021	2020
Assets		
Cash and cash equivalents	\$ 1,871,719	\$ 1,770,008
Due from the Center	1,376	-
Total assets	\$ 1,873,095	\$ 1,770,008
Net Position		
Restricted for the Center's obligations to the Neuroscience Consortium	\$ 1,873,095	\$ 1,770,008
Total net position	\$ 1,873,095	\$ 1,770,008

**Statements of Changes in Fiduciary Net Position
Years Ended June 30, 2021 and 2020**

	2021	2020
Additions		
Neuroscience Consortium member contributions	\$ 1,000,000	\$ 1,250,000
Interest income	2,905	11,772
Miscellaneous	182	-
Total additions	1,003,087	1,261,772
Deductions		
Payments	900,000	1,332,824
Total deductions	900,000	1,332,824
Net increase (decrease) in fiduciary net position	103,087	(71,052)
Net position, beginning of year	1,770,008	1,841,060
Net position, end of year	\$ 1,873,095	\$ 1,770,008

See notes to financial statements.

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 1. Organization

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

On June 16, 2008, the *Life Sciences Act* enacted by the Massachusetts Legislature was signed into law by Governor Deval Patrick. In that legislation, the Commonwealth committed to investing \$1 billion over a 10-year period to create jobs, drive innovation and promote biomedical breakthroughs that improve people's lives. The Center is the steward and administrator of the \$1 billion and uses three statutory funding vehicles to achieve the Commonwealth's mission: the Life Sciences Investment Fund (the Investment Fund), the Capital Program, and the Life Sciences Tax Incentive Program.

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

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

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

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

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

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Notes to Financial Statements

Note 2. Significant Accounting Policies

Accounting and reporting standards: These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), as prescribed by GASB Codification Section 2100, which establishes standards for defining and reporting on the financial reporting entity.

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

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

Net investment in capital assets: The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are included in this component of net position. For fiscal years 2021 and 2020, there were no deferred outflows or inflows of resources.

Restricted: Restricted net position represents the portion of net position that is reported as restricted when there are external third-party limitations (statutory, contractual, or bond covenant) on its use. At June 30, 2021 and 2020, the Neuroscience Consortium Custodial Fund's net position is restricted for the Neuroscience Consortium in the statements of fiduciary net position.

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

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

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

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

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

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

Investments: Pursuant to GASB 79, *Certain External Investment Pools and Pool Participants*, the Center's investments are in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenues, expenses and changes in net position. The Center's investments as of June 30, 2021 and 2020, meet the definition to be reported as cash equivalents.

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

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

Capital program revenues are amounts from the Commonwealth for related capital program expenditures by grantees of the Center. Capital program grantees submit requests for reimbursement to the Center after funds have been expended. The Center recognizes the capital program revenue when related capital expenses are incurred.

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

Loans receivable and interest receivable, net: Loans receivable, net, consists of loans issued by the Center through the Investment Fund to facilitate research, development, manufacturing and commercialization in life sciences by early-stage companies. The loans have repayment terms of the earlier of five years or a qualified financing greater than \$5,000,000. The initial stated interest rate on each loan is 10% compounded annually.

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

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

As of June 30, 2021 and 2020, \$22.4 million had been authorized and disbursed from the Investment Fund. During fiscal year 2021, four borrowers repaid their loan in full with a repayment of principal of \$2,184,000 and four borrowers partially repaid their loans with a repayment of principal of \$462,460. During fiscal year 2020, one borrower repaid their loan in full with a repayment of principal of \$778,496 and seven borrowers partially repaid their loans with a repayment of principal of \$331,627. There were no new loans awarded or disbursed in fiscal year 2021 and 2020.

Due to the nature of the loans made under this program, reserves are established at the time the loans are granted at a rate commensurate with management's estimate of historic loan loss. On a periodic basis, the Center assesses the collectability of each loan and records adjustments to those reserves based on an assessment of the financial condition of the borrower and loan performance. As of June 30, 2021, \$1,770,725 of loans receivable were outstanding and \$963,026 had been reserved for losses, resulting in net loans receivable of \$807,699. As of June 30, 2020, \$4,417,186 of loans receivable were outstanding and \$2,340,475 had been reserved for losses, resulting in net loans receivable of \$2,076,711.

The gross interest receivable balance was \$2,025,889 and \$2,782,660 as of June 30, 2021 and 2020, respectively. On a periodic basis, the Center assesses the collectability of the interest receivable and establishes a loss reserve in a manner consistent with loss reserves for loans receivable. The Center reserved \$1,196,254 and \$1,882,391, resulting in a net interest receivable of \$829,635 and \$900,269 as of June 30, 2021 and 2020, respectively. Interest is due at the end of the loan term or upon repayment of the loan due to a qualified financing of greater than \$5,000,000.

Convertible notes receivable: Convertible notes receivable consists of loans issued by the Center through the Seed Fund to advance innovative and promising life science companies in targeted geographies throughout the Commonwealth by working with partners to leverage resources and promote economic development.

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

Four loans were awarded or disbursed in fiscal year 2021 and one loan in fiscal year 2020. None of the loans had been repaid as of June 30, 2021. One loan converted to equity during fiscal year 2021. There were no reserves for convertible loans outstanding as of June 30, 2021 and 2020.

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Property and equipment, net: Property, equipment and leasehold improvements with a value greater than \$500 are all stated at cost. Depreciation is recorded over the estimated useful lives of the assets by the straight-line method. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense totaled \$48,323 and \$51,106 for the years ended June 30, 2021 and 2020, respectively. Estimated useful lives used for computing depreciation on property, equipment and leasehold improvements are as follows:

Computer equipment and software	3 years
Office equipment	3 years
Office furniture	3 years
Leasehold improvements	Shorter of the remaining term of lease or asset life

Grant expense and grants payable: Grant expenses represent the current period cost of qualifying grant expenditures pursuant to the terms of each grant program. The Center had grant expense of \$60,976,385 and \$35,239,303 for fiscal year 2021 and 2020, respectively. As of June 30, 2021 and 2020, \$32,186,388 and \$13,541,700, respectively, was recorded as grants payable and accrued grant expense, representing grant expense incurred but not yet paid.

Income taxes: Pursuant to Massachusetts General Laws chapter 23I §6(a), the operations of the Center constitute the performance of an essential government function and are therefore exempt from taxation by and within the Commonwealth.

Defined benefit plan: All employees of the Center participate in either the Commonwealth of Massachusetts State Retirement systems under a special funding situation where the Commonwealth of Massachusetts is a 100% non-employer contributor under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, or the statutorily prescribed optional defined contribution plan provided by the Center. The Center makes no contributions for employees participating in the Commonwealth of Massachusetts State Retirement systems' pension plan (the State Plan). An actuarial valuation has been performed for the State Plan. The Center's employees were included in the actuarial analysis and a net pension liability of \$907,747 and \$782,734 as of June 30, 2021 and 2020, respectively, is owed by the Commonwealth and noted as part of the total State Plan's net pension liability. The State Plan's net pension liability and net position are disclosed in the footnotes and other required supplementary information of the Comprehensive Annual Financial Report of the Commonwealth as there are no liabilities to be recorded in the Center's statements. The Center has not included all required GASB Statement No. 68 disclosures as GASB Statement No. 68 is deemed immaterial to the Center.

Defined contribution plan: In fiscal year 2010, as provided by the 2008 Life Science Act, the Center established the optional defined contribution pension plan. The Center annually contributes an amount equal to 12% (5% statutorily mandated) of an employee's annual gross salary less the cost of life and disability insurance. Total optional defined contribution expense by the Center for the years ended June 30, 2021 and 2020 was \$166,498 and \$184,434, respectively. Vesting is immediate upon contribution. The Center pays administrative expenses of the Plan for the plan participants and VOYA is the custodian of the plan's assets. The balances of the plan are not included in the financial statements of the Center.

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

Massachusetts Neuroscience Consortium: In June 2012, the Center announced the formation of a separate initiative, the Massachusetts Neuroscience Consortium (the Consortium), a collaboration between seven global pharmaceutical companies. The Consortium will fund pre-clinical neuroscience at Massachusetts academic and research institutions. Each consortium member has agreed to contribute \$250,000 to the Consortium for the first-year membership contribution. The Center is not a member of the Consortium. The financial burden and administrative control do not reside with the Center. The designated members of the Consortium are responsible for all decisions regarding disbursement of funds. The Center acts solely as a custodian of the Consortium funds which are segregated in a separate bank account, the Center does not receive any fees for custodial services provided. In fiscal years 2021 and 2020, the Consortium received \$1,000,000 and \$1,250,000, respectively. These balances, plus interest from membership contributions to date, are held within a segregated bank account of the Center. The Center issued \$900,000 and \$1,332,824 of payments to the Consortium during fiscal years 2021 and 2020, respectively. The asset and corresponding net position balances of the Consortium are accounted for as a fiduciary activity – custodial fund included in the statements of fiduciary net position and statements of changes in fiduciary net position of the Center as of June 30, 2021 and 2020. If the Consortium was to terminate, all remaining funds would be due back to the contributing members on a pro-rata basis.

Recent accounting pronouncements: In January 2017, GASB issued GASB Statement No. 84, *Fiduciary Activities*, This Statement establishes criteria for identifying and reporting fiduciary activities. The focus of the criteria generally is on: (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria is reported in one of four fiduciary fund types in the basic financial statements, which are: 1) Pension (or other employee benefit) trust fund, 2) Investment trust fund, 3) Private-purpose trust fund, and 4) Custodial fund.

The Center adopted the Statement for the year ended June 30, 2021. The adoption of the Statement is applied retroactively for the years ended June 30, 2021 and 2020. The implementation resulted in the identification of Neuroscience Consortium as a fiduciary activity- custodial fund. Accordingly, the Center has included the financial statements of the custodial fund as a fiduciary activity in the Center's financial statements.

In June 2017, GASB issued GASB Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The provisions of this standard are effective for reporting periods beginning after June 15, 2021. Early adoption is permitted. The Center is currently evaluating the impact this pronouncement will have on the financial statements.

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Notes to Financial Statements

Note 2. Significant Accounting Policies (Continued)

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

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

Subsequent events: Management has evaluated subsequent events through September 29, 2021.

Note 3. Related Party Transactions

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

Note 4. Cash and Cash Equivalents

The Board of the Center is empowered under Chapter 23I of the Massachusetts General Law (MGL), which shall have all powers necessary or convenient to carry out and effectuate its purposes, including, without limiting the generality of the foregoing, the powers: to invest any funds held in reserves or sinking funds, or the Investment Fund, or any funds not required for immediate disbursement, in such investments as may be provided in any financing document relating to the use of such funds, or, if not so provided, as the Board may determine. During fiscal years 2021 and 2020, the majority of these assets were allocated to short-term investments/money market accounts which qualify as cash equivalents carried at amortized cost.

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Notes to Financial Statements

Note 4. Cash and Cash Equivalents (Continued)

Custodial credit risk – deposits: Custodial credit risk for deposits exists when, in the event of failure of a depository financial institution, the Center’s deposits may not be recovered. The Center does not have a policy for custodial risk. At June 30, 2021, bank deposits were \$27,754,7451 which excludes the amount held in the Massachusetts Municipal Depository Trust (MMDT or the Trust). The Center invests some of its funds in the MMDT, an external investment pool for political subdivisions of the Commonwealth designed as a legal means to invest temporarily available cash. The State Treasurer serves as trustee of MMDT, and has sole authority pertaining to rules, regulations and operations of the Trust. Investment options the MMDT offers are a cash portfolio which offers participation in a diversified portfolio of high-quality money-market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity and Short-Term Bond Portfolio which offers participation in a diversified portfolio of investment-grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, presenting a fixed-income alternative with a longer time horizon than the cash portfolio. A participant’s holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized. The Center’s investment balance as of June 30, 2021 at MMDT was solely in the cash portfolio. The cash portfolio is not registered with the Securities and Exchange Commission as an investment company but maintains a policy to operate in a manner as a qualifying external investment pool as defined by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

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

The following summarizes the cash and cash equivalents of the Center at June 30, 2021 and 2020:

	2021	2020
Cash deposits	\$ 27,754,751	\$ 37,504,497
MMDT Cash Portfolio	26,751,269	26,701,192
	<u>\$ 54,506,020</u>	<u>\$ 64,205,689</u>

Note 5. Property and Equipment, Net

Property and equipment, net, at June 30, 2021 and 2020, consisted of the following:

	2021	2020
Computer equipment	\$ 365,940	\$ 38,363
Office furniture	(31,419)	(17,487)
Leasehold improvements	-	-
	<u>334,521</u>	<u>20,876</u>
Accumulated depreciation	2,392,290	524,727
Property and equipment, net	<u>\$ 2,726,811</u>	<u>\$ 545,603</u>

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 6. Accounts Payable and Accrued Expenses

As of June 30, 2021 and 2020, accounts payable and accrued expenses totaled \$323,609 and \$324,863, respectively. Those expenses primarily accounted for accrued salary, professional and consulting fees and marketing expenses.

Note 7. Grants and Commitments

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

Workforce training grants: The Center runs a year-round Internship Challenge Program which provides summer and academic year internships for students predominately studying science, technology, engineering, and mathematics at various life sciences companies. On an annual basis, the Board authorizes the amount that the Center uses to fund these internships. For the years ended June 30, 2021 and 2020, the Center incurred the following expenses relating to the Internship Challenge Program:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
FY18 Internship	\$ 3,666,065	\$ 3,700,000	\$ (33,935)	\$ -	\$ -	\$ -
FY19 Internship	3,239,083	993,581	2,382,411	(136,909)	-	-
FY20 Internship	2,894,802	-	848,454	2,046,348	453,767	453,767
FY21 Internship	2,500,000	-	-	952,464	952,464	2,500,000
FY20 Data Science Internship	500,000	-	-	260,560	24,400	263,840
	<u>\$ 12,799,950</u>	<u>\$ 4,693,581</u>	<u>\$ 3,196,930</u>	<u>\$ 3,122,463</u>	<u>\$ 1,430,631</u>	<u>\$ 3,217,607</u>

The Center runs programs for High School Apprenticeship Challenge which offers apprenticeships to high school students at life sciences companies and research institutions. On an annual basis, the Board authorizes the amount that the Center uses to fund the apprenticeship program. For the years ended June 30, 2021 and 2020, the Center incurred the following expense relating to the High School Apprenticeship Challenge Program:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
2019 HS Apprenticeship	\$ 577,698	\$ 434,714	\$ 142,984	\$ -	\$ -	\$ -
2020 HS Apprenticeship	170,145	-	206,234	(36,089)	-	-
2021 HS Apprenticeship	500,000	-	-	279,355	89,425	310,070
	<u>\$ 1,247,843</u>	<u>\$ 434,714</u>	<u>\$ 349,218</u>	<u>\$ 243,266</u>	<u>\$ 89,425</u>	<u>\$ 310,070</u>

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Industry and innovation grants: The Center runs a variety of programs on an annual basis to support early-stage companies to ensure a thriving life science ecosystem in the Commonwealth. Currently the Center has two programs to support these companies, including the Milestone Achievement Program (MAP), which is aimed at enabling early-stage companies in achieving critical, value creating milestones; and MassNextGen Program, which aims to support women entrepreneurs engaged in the advancement of early-stage life sciences companies. The Center also has one program aimed at attracting companies to relocate into Massachusetts, called the MassTAG program. For the years ended June 30, 2021 and 2020, the Center incurred the following expenses relating to the early-stage grant programs:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
FY19 MAP	\$ 1,845,705	\$ 258,538	\$ 1,030,299	\$ 556,868	\$ 274,144	\$ 274,144
FY19 MassNextGen	437,500	280,000	122,500	35,000	-	-
FY20 MassNextGen	512,500	-	410,000	102,500	34,167	34,167
FY21 MassNextGen	437,500	-	-	350,000	-	87,500
MassTAG	1,440,000	235,000	365,000	410,000	130,000	560,000
	<u>\$ 4,673,205</u>	<u>\$ 773,538</u>	<u>\$ 1,927,799</u>	<u>\$ 1,454,368</u>	<u>\$ 438,311</u>	<u>\$ 955,811</u>

Women's Health Innovation Program: In June 2021, the Board approved 10 awards totaling \$982,516 from the Investment Fund for the Women's Health Innovation program, a program designed to provide grants for capital projects in Massachusetts that aim to support translational research in women's health and gender biology that will ultimately lead to commercial opportunities that address the lack of innovative technologies. For the year ended June 30, 2021, the Center incurred no expense. Remaining payments and commitments under the authorized grants are \$982,516 from the Investment Fund as of June 30, 2021.

Other grants: The Center has made grants to various science, technology, engineering and math (STEM) related education grants, diversity, equity, and inclusion workforce grants, and business plan competitions. For the fiscal years ended June 30, 2021 and 2020, the Center incurred the following expenses:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
STEM and Workforce Development Grants	\$ 795,837	\$ 30,672	\$ 103,501	\$ 43,464	\$ 31,800	\$ 650,000
Scientific Research Grants	509,028	-	148,040	187,504	62,266	235,750
Competitions & Challenges	498,775	140,000	97,500	231,275	47,500	77,500
	<u>\$ 1,803,640</u>	<u>\$ 170,672</u>	<u>\$ 349,041</u>	<u>\$ 462,243</u>	<u>\$ 141,566</u>	<u>\$ 963,250</u>

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

COVID-19 pandemic response grants: In April 2020, the Board authorized the Center to deploy up to \$5 million from the Center’s investment funds for projects designed to combat the COVID-19 pandemic. The Center committed \$851,309 of awards through the Manufacturing Emergency Response Team (M-ERT) program and \$2,334,690 to support projects through the Massachusetts Consortium for Pathogen Readiness (MassCPR) and \$1,813,731 to support projects through the Accelerating Coronavirus Testing Solutions (A.C.T.S.) program. For the fiscal year ended June 30, 2021, the Center expensed \$2,864,498, of which \$2,180,352 is not paid, and is included in grants payable and accrued grant expenses. For the fiscal year ended June 30, 2020, the Center expensed \$801,302, of which \$614,316 was not paid and was included in grants payable and accrued grant expenses. Remaining payments and commitments under the authorized grants are \$3,248,165 as of June 30, 2021.

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

Biomanufacturing capital programs: The Center is a member of the National Institute for Innovation in Manufacturing Biopharmaceuticals (NIIMBL), which is a national initiative designed to accelerate biopharmaceutical manufacturing innovation in the United States, support the development of standards that enable more efficient and rapid manufacturing capabilities, and educate and train a world-leading biopharmaceutical manufacturing workforce, fundamentally advancing U.S. competitiveness in this industry. The Center committed to providing cost-share for NIIMBL projects in Massachusetts provided that each project presented for funding be vetted by the Center’s Scientific Advisory Board, submitted to the Center’s Investment Committee for review, and approved by the Board prior to funding.

In fiscal year 2019, the Center launched The Building Breakthroughs program to provide grants for capital projects in Massachusetts by enabling and supporting biomanufacturing innovation, including improvements to upstream/downstream processing, production of cell and gene therapies, monoclonal antibodies, and small molecules, quality and safety, and storage/stability in the Commonwealth. The program is aimed to address biomanufacturing bottlenecks that keep therapies from patients, and potentially reduce costs and avoid drug shortages.

For the fiscal years ended June 30, 2021 and 2020, the Center incurred the following expenses for its biomanufacturing programs:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
Building Breakthroughs FY19 Authorization	\$ 2,795,607	\$ -	\$ 1,320,239	\$ 1,141,851	\$ 751,430	\$ 1,084,947
NIIMBL FY18 Authorization	2,726,549	1,441,844	1,284,705	-	-	-
NIIMBL FY19 Authorization	678,334	-	408,500	269,834	89,945	89,945
NIIMBL FY20 Authorization	50,000	-	-	28,876	28,876	50,000
NIIMBL FY21 Authorization	857,940	-	-	-	-	857,940
	<u>\$ 7,108,430</u>	<u>\$ 1,441,844</u>	<u>\$ 3,013,444</u>	<u>\$ 1,440,561</u>	<u>\$ 870,251</u>	<u>\$ 2,082,832</u>

**Massachusetts Life Sciences Center
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Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

Big Data Capital Program: Bits to Bytes is a program designed to provide grants for capital projects in Massachusetts by enabling and supporting the generation and analysis of large datasets to answer pressing life science questions, and to attract and train data scientists in the Commonwealth. For the fiscal years ended June 30, 2021 and 2020, the Center incurred the following expenses:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
Bits to Bytes FY19 Authorization	\$ 5,917,700	\$ -	\$ 2,137,336	\$ 3,165,187	\$ 1,551,488	\$ 2,166,665
Bits to Bytes FY20 Authorization	4,640,749	-	-	3,482,848	2,911,893	4,069,794
Bits to Bytes FY21 Authorization	4,487,398	-	-	-	-	4,487,398
	<u>\$ 15,045,847</u>	<u>\$ -</u>	<u>\$ 2,137,336</u>	<u>\$ 6,648,035</u>	<u>\$ 4,463,381</u>	<u>\$ 10,723,857</u>

Women's Health Programs: The Center currently runs two capital programs to support women's health research and innovation. During fiscal year 2020 and fiscal year 2021, the Board made awards through the Women's Health Capital Program for Capital Projects in Massachusetts that aim to improve the discovery, technical innovation and/or analysis of datasets to answer pressing life science questions around women's health. In fiscal year 2021, the Center launched the Women's Health Innovation grant program to provide grants for capital projects in Massachusetts that aim to support translational research in women's health and gender biology that will ultimately lead to commercial opportunities that address the lack of innovative technologies. For the fiscal years ended June 30, 2021 and 2020, the Center incurred the following expenses for its women's health programs:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
Women's Health FY20 Authorization	\$ 4,123,531	\$ -	\$ -	\$ 2,270,628	\$ 2,036,447	\$ 3,889,350
Women's Health FY21 Authorization	2,414,623	-	-	-	-	2,414,623
Women's Health Innovation FY21 Authorization	1,841,067	-	-	-	-	1,841,067
	<u>\$ 8,379,221</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,270,628</u>	<u>\$ 2,036,447</u>	<u>\$ 8,145,040</u>

Novel Therapeutics Delivery Capital Program: The Novel Therapeutics Delivery Capital Program is designed to provide grants for capital projects in Massachusetts that aim to foster the development of novel technologies and techniques for the delivery of existing or innovative therapies by working at the intersection of engineering, biology, chemistry, and medicine. For the fiscal years ended June 30, 2021 and 2020, the Center incurred the following expenses:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
Novel Therapeutics Delivery FY20 Authorization	\$ 3,265,406	\$ -	\$ -	\$ 2,724,354	\$ 1,228,403	\$ 1,769,455
Novel Therapeutics Delivery FY20 Authorization	2,525,199	-	-	327,928	327,928	2,525,199
	<u>\$ 5,790,605</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,052,282</u>	<u>\$ 1,556,331</u>	<u>\$ 4,294,654</u>

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

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

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

The following table summarizes active grants in fiscal years 2021 and 2020 under the Open Capital Program:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
Berkshire Innovation Center	\$ 12,025,000	\$ 8,006,535	\$ 4,018,465	\$ -	\$ -	\$ -
Harvard School of Public Health	4,912,307	4,581,713	330,594	-	-	-
BioBuilder	500,000	-	-	-	-	500,000
Bristol Community College	4,400,000	4,317,100	82,900	-	-	-
Baystate Health	3,949,912	-	598,744	1,933,082	894,716	2,312,802
Boston University Medical School	4,896,000	-	3,266,148	1,629,852	-	-
Brigham & Women's Hospital	5,000,000	-	3,025,423	1,920,715	1,919,457	1,973,319
Boston Children's Hospital	1,545,050	-	200,608	785,109	736,395	1,295,728
Gloucester Marine Genomics Institute	174,383	-	150,562	23,821	-	-
Massachusetts General Hospital	4,805,000	-	954,935	3,850,065	1,224,019	1,224,019
Northeastern University	4,271,867	402,851	2,401,848	1,446,687	216,384	236,865
Quincy College	725,739	98,186	313,418	137,403	61,562	238,294
MassBay Community College	500,000	369,114	79,703	45,338	36,887	42,732
Massachusetts Biomedical Initiatives	3,494,256	-	3,494,256	-	-	-
North Shore Innovations	1,500,000	-	169,502	1,330,498	493,797	493,797
LabCentral 238	5,000,000	-	-	5,000,000	714,342	714,342
Massachusetts Biomedical Initiatives	500,000	-	500,000	-	-	-
Beth Israel Deaconess Medical Center	1,705,471	-	-	1,592,992	248,927	361,406
University of Massachusetts Amherst	299,329	-	289,233	10,096	-	-
University of Massachusetts Amherst	515,617	-	3,472	512,145	-	-
University of Massachusetts Medical School	1,370,315	-	-	1,370,315	-	-
The Mansfield Bio-Incubator, Inc.	2,000,000	-	-	200,780	7,480	1,806,700
University of Massachusetts Amherst	129,900	-	-	129,900	-	-
University of Massachusetts Boston	388,324	-	-	387,808	-	516
University of Massachusetts Amherst	1,101,559	-	-	1,100,259	1,051,174	1,052,474
Worcester Polytechnic Institute	877,314	-	-	877,314	600,628	600,628
University of Massachusetts Medical School	926,305	-	908,711	17,594	-	-
University of Massachusetts Lowell	1,132,949	-	610,000	522,949	145,355	145,355
Beth Israel Deaconess Medical Center	3,307,757	-	-	2,530,356	2,530,356	3,307,757
Dana-Farber Cancer Institute, Inc.	1,824,028	-	-	1,289,599	1,289,599	1,824,028
Museum of Science	1,520,760	-	-	1,430,477	1,430,477	1,520,760
Tufts University	2,027,244	-	-	2,027,244	2,027,244	2,027,244
University of Massachusetts Medical School	2,797,610	-	-	2,797,610	2,797,610	2,797,610
	<u>\$ 80,123,996</u>	<u>\$ 17,775,499</u>	<u>\$ 21,398,522</u>	<u>\$ 34,900,008</u>	<u>\$ 18,426,409</u>	<u>\$ 24,476,376</u>

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

Notes to Financial Statements

Note 7. Grants and Commitments (Continued)

STEM Equipment and Supplies Program: The STEM Equipment and Supplies Grant Program enables the purchase of equipment and supplies for high schools and middle schools in the Commonwealth in order to train students in life sciences technology and research, as well as addresses a funding gap in capital dollars for public and not-for-profit workforce training and educational institutions. The program also seeks to increase student achievement and student interest in STEM as well as support the implementation of state STEM standards. The following table summarizes active grants in fiscal year 2021 and 2020 under the program:

Program	Award Amount	Expensed Prior to FY20	Expensed FY20	Expensed FY21	Amount in Grants Payable or Accrued Grant Expense as of June 30, 2021	Remaining payments as of June 30, 2021
FY19 High School Equipment Boston	\$ 395,600	\$ 393,417	\$ 2,183	\$ -	\$ -	\$ -
FY19 High School Equipment Lawrence	128,823	119,894	8,929	-	-	-
FY19 High School Equipment Lowell	61,717	53,715	8,002	-	-	-
FY20 High School Equipment Salem	76,932	-	764	39,422	27,507	64,253
FY20 High School Equipment Chelsea	100,537	-	-	92,257	80,045	88,325
FY20 High School Equipment Randolph	91,973	-	-	85,570	18,482	24,885
FY21 High School Equipment Program	2,900,000	-	-	-	-	2,900,000
	<u>\$ 3,755,582</u>	<u>\$ 567,026</u>	<u>\$ 19,878</u>	<u>\$ 217,249</u>	<u>\$ 126,034</u>	<u>\$ 3,077,463</u>

COVID-19 Pandemic Response Grants: In April 2020, the Board authorized the Center to deploy up to \$5 million from the Center's Capital Funds for capital projects designed to combat the COVID-19 pandemic through the Manufacturing Emergency Response Team (M-ERT) and Accelerating Coronavirus Testing Solutions (A.C.T.S) programs. In September 2020, the Center received additional funding of \$3 million from the Executive Office of Housing and Economic Development (EOHED) to further support the M-ERT program. As of June 30, 2021, the Center committed \$6,148,693 of awards through the M-ERT program and \$77,575 of awards through the A.C.T.S. program. For the fiscal year ended June 30, 2021, the Center expensed \$4,300,912, of which \$427,248 is not paid and is included in grants payable and accrued grant expenses. For the fiscal year ended June 30, 2020, the Center expensed \$1,870,734, of which \$255,562 was not paid and was included in grants payable and accrued grant expenses. Remaining payments and commitments under the authorized grants are \$429,366 as of June 30, 2021.

Total remaining payments and commitments for all capital program grants as of June 30, 2021, is \$53,229,587, which is contingent upon the Commonwealth fulfilling their funding obligations to the Center.

Facility lease: The Center entered into a five-year non-cancelable operating lease for office space at 1075 Main Street, Waltham, Massachusetts from April 1, 2019 through March 31, 2024. Rent expense under the operating leases was \$354,692 and \$354,692 for the years ended June 30, 2021 and 2020, respectively.

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

2022	\$ 354,692
2023	354,692
2024	266,019
	<u>\$ 975,403</u>

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

Board of Directors
Massachusetts Life Sciences Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the fiduciary activity of the Massachusetts Life Sciences Center (the Center), a component unit of the Commonwealth of Massachusetts, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated September 29, 2021. Our report contained a qualified opinion related to the Center not having recognized or disclosed any values associated with unexercised warrants or conversion feature on associate loans as the financial effects of recognizing and disclosing such information are not reasonably estimable. The Center adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*. Our opinion has not been modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

RSM US LLP

Boston, Massachusetts
September 29, 2021