

OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT

FISCAL 2014 ANNUAL REPORT GUIDANCE

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 demonstrating progress against plan and include additional information as outlined in [Chapter 240 of the Acts of 2010](#).

The annual reports of each agency will be published on the Office of Performance Management [website](#), and will 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.

Filing Instructions:

The Fiscal Year 2014 report is due no later than **Friday, October 3, 2014**. An electronic copy of the report and attachments A & B should be e-mailed to James.Poplasky@MassMail.State.MA.US

1) AGENCY INFORMATION

Agency Name Massachusetts Growth Capital Corporation

Agency Head Charles T. Grigsby

Title President

Website www.massgcc.com

Address 529 Main Street, Suite 1M10, Charlestown, MA

2) MISSION STATEMENT

Please include the Mission Statement for your organization below.

The Mission of the Massachusetts Growth Capital Corporation is to foster the creation and preservation of jobs in small businesses, in women and minority-owned firms, and through the promotion of economic development in underserved, gateway municipalities as well as other low and moderate-income communities throughout the state.

MGCC provides a central resource at the state level that offers working capital loans, guarantees and targeted technical assistance to solve specific financial and operational problems.

To fulfill its mission, MGCC works with traditional financial institutions, non-bank lenders, community development corporations and other non-profits to provide financing for job-

producing projects. MGCC also makes loans to firms in which there are no other lenders to improve their capacity to receive traditional financing.

MGCC seeks to strengthen the existing network of micro lenders across the state to ensure that all levels of financing requirements are addressed. Additionally, MGCC manages competitive grant programs that provide training and technical assistance to small businesses, including small contractors.

3) PERFORMANCE AGAINST PLAN REPORT

Please provide details on the progress and accomplishments for Fiscal Year 2014 as it relates to the Fiscal Year 2014 Plan submitted by your agency. Plans are posted on the OPMO [website](#) for easy reference. This information should be included as **Attachment A and should include prior year perspective**. In addition to your Performance to Plan Report, Questions 4 through 10 provides guidance on the specific information required under Chapter 240 of the Acts of 2010.

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	\$2,774,336	
Expenditures	\$2,916,110	
Assets	\$49,133,938	
Liabilities	\$838,124	

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 FY14 in the **Performance Against Plan Report – Attachment A** 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:

Turnaround Management Assistance

6) DEBT OR EQUITY INVESTMENT DETAILS

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

If **Yes**, please provide detailed information on debt and/or equity investments made during FY14 in the **Performance Against Plan Report – Attachment A** section of this report along with job, investment and/or other economic development impact. Please list the name(s) of the debit and/or equity investments programs offered by your agency in the space provided below:

Please see Loan Detail Spreadsheet

7) LOAN DETAILS

Is your agency involved in **real estate loans, working capital loans**, or any **other type of loan** or **guarantee**?

Yes X **No**

If **Yes**, please provide detailed information on loan(s) and/or guarantee(s) made during FY14 in the **Performance Against Plan Report – Attachment A** 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:

Term Loan, Line of Credit, Guarantee, Purchase Order Financing

8) OTHER FORMS OF FINANCING OR FINANCIAL ASSISTANCE?

If your agency provides any other form of financing or financial assistance, please include FY14 details in the **Performance Against Plan Report – Attachment A** 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:

N/A

9) PATENTS OR PRODUCTS

Does your agency track **patents** or **products** resulting from agency-funded activities? **Yes** **No X**

If **Yes**, please include details in the **Performance Against Plan Report – Attachment A** 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 FY14 in the **Performance Against Plan Report – Attachment A** 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:

Small Business Assistance Grant Program

11) MANAGEMENT TEAM

Please confirm that the senior management team listed on your website is accurate and report on any current or pending vacancies and/or replacements.

Lawrence Andrews will be replacing Charles Grigsby as President effective October 21, 2014.

12) BOARD OF DIRECTORS

If applicable, please confirm that the board of director information on your website is accurate and provide information on any current or pending board vacancies.

The board information on our website is accurate.

Representative of an organization of small businesses or manufacturing companies – Vacant

Representative from a community bank nominated by Mass Bankers Association - Vacant

ATTACHMENT A

PERFORMANCE GOALS AND OBJECTIVES

FY '14 goals were constructed to build on MGCC's current and successful lending and management assistance programs. No new initiatives were proposed.

A) Prioritize lending to meet market needs of small business and recycle capital.

The Performance Measurement was to increase loan repayments from 7% to 9 %.

The actual result was significantly higher as 17 % of loans were **prepaid** in FY 14.

B) Continue strengthening network of micro-lenders statewide

The Performance Measurement was to hold micro-loans to intermediaries to \$1,000,000 and increase Technical Assistance by 50 %.

The actual result was loans to micro –loan intermediaries at \$500,000 and turnaround Technical Assistance level at 30 firms.

C) Have 2 or more “Tools to Grow” companies financed and growing as projected

The Performance Measure was 2 companies growing at 10% or more.

The actual result was 3 companies growing in excess of 10 %, including companies not enrolled in the Tools to Grow program.

D) Increase number of participating banks to stimulate more bank referrals

The Performance Measure was an increase from 43 to 58.

The actual result was an increase of participation to 56 banks and non-bank lenders.

E) Ensure management assistance capability is known to participating lenders and borrowers

The Performance Measure was to increase companies assisted from 25 to 40.

The actual result of the Technical Assistance Grant Program was a total of 1,058 businesses receiving services from 24 TA providers.



Statewide Outcomes Summary

MGCC SMALL BUSINESS ASSISTANCE GRANT PROGRAM FY14

- 1058 business clients received services from our grantee small business assistance providers, a 16 % increase over last year
- 87% of business clients were from an underserved target demographic (women, minorities, immigrants, low/moderate community, low/moderate income business owner, unemployed, or a veteran)
- 213 (20%) new businesses created
- 272 (26%) businesses stabilized
- 322 (30%) businesses grew as a result of services provided by our grantees
- **Nearly 500 new jobs created**
- Nearly 600 jobs preserved
- 277 (26%) of businesses received financing for a total of nearly **\$16.5 million**
- Loans to borrowers ranged in size from \$1,100 to \$850,000

FY14 LOANS

COMMIT DATE	Date Closed	Company	City	Region	Loan	Term Loan	Guaranty	P.O. Financing	Line of Credit	Number of Employees	Current Employees	Projected Employees
LOANS CLOSED												
7/25/2013	8/19/2013	Onyx Spectrum	Boston	Boston	\$20,000			20,000		2	2	3
8/13/2013	10/3/2013	NER Construction Management Inc	Wilmington	Northeast	\$1,000,000	1,000,000				220	220	220
8/13/2013	11/21/2013	MK Services	Middleton	Northeast	\$350,000	350,000				30	30	35
8/15/2013	10/2/2013	La Alianza Hispana	Roxbury	Boston	\$60,000	60,000				18	18	18
9/11/2013	10/23/2013	Appliance Plus	Springfield	Western	\$40,000	40,000				4	4	10
9/18/2013	10/11/2013	Onyx Spectrum	Boston	Boston	\$55,000			55,000		2	2	3
9/24/2013	11/5/2013	Millennium Group Inc	Natick	Northeast	\$500,000	500,000				48	58	58
11/4/2013	12/4/2013	Webb Transportation	Danvers	northeast	\$100,000	100,000				14	14	16
11/7/2013	11/27/2013	United Walls Systems, LLC	Leominster	Central	\$180,000				180,000	15	15	17
11/12/2013	12/12/2013	Custom Seasoning	Gloucester	Northeast	\$200,000	\$200,000				16	16	24
12/4/2013	12/16/2013	StonyBrook Water Company	Manchester	Northeast	\$100,000	100,000				4	4	7
12/17/2013	1/24/2014	MRSI Systems, Inc.	Billerica	Northeast	\$750,000	750,000				37	37	42
12/17/2013	2/14/2014	Montilio's Baking Co.	Brockton	Southeast	\$50,000				50,000	79	79	82
12/18/2013	2/3/2014	E.R. Lewin, Inc.	Wrentham	Boston	\$250,000	250,000				22	22	25
1/16/2014	2/21/2014	Artisan Music Studio	Woburn	Northeast	\$225,000		225,000			34	34	72
1/23/2014	3/25/2014	Falite Brothers, Inc.	Wakefield	Northeast	\$250,000	150,000			100,000	22	22	22
2/27/2014	3/19/2014	Advans Technology	Marlborough	Central	\$150,000	150,000				16	16	24
2/28/2014	4/1/2014	Cape Pond Ice Company	Gloucester	Northeast	\$200,000				200,000	28	28	32
3/7/2014	3/7/2014	Royale Care	Worcester	Central	\$85,000				85,000	12	12	42
3/11/2014	4/16/2014	The Ockers Company	Brockton	Southeast	\$350,000				350,000	49	49	52
3/14/2014	4/7/2014	Blue Selenium	Sandwich	Southeast	\$250,000	250,000				18	18	22
3/14/2014	6/9/2014	Veterans Development Corp	Braintree	Boston	750,000				750,000	27	27	30
3/21/2014	6/17/2014	East Middlesex Arc	Wakefield	Northeast	250,000		250,000			170	170	220
4/14/2014	4/12/2014	The Clean Team Janitorial LLC	Salem	Northeast	\$250,000	250,000				106	106	125
4/21/2014	5/5/2014	Old Time Sports	Salisbury	Northeast	\$250,000	250,000				51	51	52
3/14/2014	6/13/2014	Auriga Microwave Systems	Chelmsford	Northeast	\$400,000				400,000	19	19	22
4/30/2014	5/23/2014	Taino	Boston	Boston	\$100,000			100,000		18	18	23
4/25/2014	5/19/2014	Webb Transportation	Danvers	Northeast	80,750	80,750				14	14	16
02/29/2013	4/8/2013	Landmark Finish, Inc.	Andover	Northeast	\$100,000	100,000				6	6	7
3/14/14	6/13/14	Auriga Measurement System	Chelmsford	Northeast	400,000				400,000	22	22	26
8/26/2014	9/30/2014	Interior Stone	Waltham	Boston	535,000	235,000			350,000	24	24	24

Committed FY14, Closed FY 15

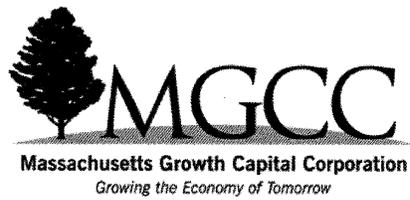
6/3/2014	7/14/2014	NER Construction Management Inc	Wilmington	Northeast	\$500,000				500,000	230	230	300
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Committed FY14 & FY15 not yet funded

5/8/2014		Mariposa Child Care Center	Dedham	Boston	60,000	60,000				8	8	11
8/26/2014		Falconi Brothers, Inc	Southborough	Central	250,000	250,000				18	18	22
3/14/2014		Coastal Community Capital	Centerville	Southeast	500,000	500,000				6	6	7
6/3/2014		United Walls Systems, LLC	Leominster	Central	\$180,000			180,000		15	15	17
7/16/2014		Jack Sanborn & Sons, Inc	Amesbury	Northeast	\$150,000	150,000				12	12	15
7/15/2014		Youngblood Company	Haverhill	Northeast	\$1,000,000				1,000,000	83	83	89
7/9/2014		Detail Engineering, Inc.	Newburyport	Northeast	\$250,000	100,000			150,000	14	14	16

LOANS CLOSED TOTAL	32				\$11,170,750	\$5,875,750	\$475,000	\$175,000	\$4,695,000	1377	1387	1671
LOANS COMMITTED FY14	7				\$2,390,000	\$1,060,000	\$0	\$0	\$1,330,000	156	156	177
CLOSED AND COMMITTED	39				\$13,560,750	\$6,935,750	\$475,000	\$175,000	\$6,025,000	1533	1543	1848

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**GENERAL PURPOSE FINANCIAL STATEMENTS
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS AND
OMB CIRCULAR A-133
JUNE 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

10/02/2014

MASSACHUSETTS GROWTH CAPITAL CORPORATION

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UNMODIFIED OPINION ON GENERAL PURPOSE FINANCIAL STATEMENTS ACCOMPANIED BY OTHER INFORMATION – GOVERNMENTAL ENTITY

Independent Auditor's Report

To the Board of Directors of
Massachusetts Growth Capital Corporation:

Report on the General Purpose Financial Statements

We have audited the accompanying general purpose financial statements of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC) which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the general purpose financial statements.

Management's Responsibility for the General Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these general purpose financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the general purpose 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 general purpose financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the general purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the general purpose 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 general purpose 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 general purpose financial statements.

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

Opinion

In our opinion, the general purpose financial statements referred to on page one present fairly, in all material respects, the net position of Massachusetts Growth Capital Corporation as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 2 through 5 be presented to supplement the general purpose financial statements. Such information, although not a part of the general purpose financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the general purpose financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the general purpose financial statements, and other knowledge we obtained during our audit of the general purpose 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 Information

Our audits were conducted for the purpose of forming an opinion on the general purpose financial statements as a whole. The accompanying supplementary information on pages 18 through 21 for the years ended June 30, 2014 and 2013, is presented for additional analysis and is not a required part of the general purpose financial statements. Also, the accompanying schedule of expenditures of federal awards for the year ended June 30, 2014, is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the general purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the general purpose financial statements or to the general purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 18 through 21 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the general purpose financial statements as a whole.

The Board of Directors of
Massachusetts Growth Capital Corporation
Page III

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2014, on our consideration of MGCC'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MGCC's internal control over financial reporting and compliance.

Boston, Massachusetts
October 7, 2014

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013

Our discussion and analysis of Massachusetts Growth Capital Corporation's (MGCC) financial performance provides an overview of MGCC's financial activities for the year ended June 30, 2014. Please read it in conjunction with MGCC's general purpose financial statements, which begin on page 6.

Basic General Purpose Financial Statements

The financial activities for the year ended June 30, 2014, are included in a series of general purpose financial statements. In accordance with the Governmental Accounting Standards Board standard, *Basic Financial Statement – Management's Discussion and Analysis for State and Local Governments*, MGCC is considered a quasi-public entity that engages in only business-type activities. In accordance with this standard, MGCC issues a Statement of Net Position, a Statement of Revenues and Expenses, a Statement of Changes in Net Position, and a Statement of Cash Flows. These statements provide information about the financial activities of MGCC as a whole. Combining schedules showing the consolidation of specific restricted funds are included as supplemental information, presented on pages 18 through 21.

MGCC is a component unit of the Commonwealth of Massachusetts (the Commonwealth) that was formed on October 1, 2010, from the combination of two pre-existing entities, the Massachusetts Community Development Finance Corporation (MCDFC) and the Economic Stabilization Trust Fund (EST), as required by Chapter 40W of the Massachusetts General Laws. All assets, liabilities, and obligations from MCDFC and EST were transferred to MGCC as of October 1, 2010. The purpose of the merger was to expand upon the success and the mission of the predecessor entities and to recapitalize the merged organization. MGCC functions as a one-stop resource for debt and equity financing for small businesses, including woman and minority-owned businesses and community development efforts. The purpose of MGCC is to create and preserve jobs and promote economic development, especially in underserved, gateway municipalities, and low and moderate-income communities.

By the terms of its enabling legislation, MGCC is governed by a twelve member Board of Directors. The Board is chaired by the Secretary of Housing and Economic Development with the Secretary of Administration and Finance (A&F) as a director, along with eleven other persons appointed by the Governor. Eleven members have been appointed and confirmed as of the date of this report.

MGCC operates on a June 30th fiscal year basis.

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

The Statement of Net Position and the Statement of Revenues and Expenses include all assets, liabilities, revenue and expenses of MGCC as a whole. This activity is recorded using the economic resources measurement focus and the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Under the accrual basis of accounting, all revenue and expenses are recognized when incurred regardless of when the cash is paid or received. Additionally, these statements report MGCC's net position and changes in them. MGCC's net position, the difference between assets and liabilities, represents one way to measure MGCC's financial health or its financial position. You will also need to consider other non-financial factors when considering the overall financial health of MGCC.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014 AND 2013
(Continued)**Statements of Net Position, Revenues and Expenses and Changes in Net Position** (Continued)

The Supplemental Statements of Revenues, Expenses and Changes in Net Position shown within this report account for five basic fund groups, which all are considered restricted in nature. Brief explanations of these fund categories are as follows:

MGCC: In its initial year, MGCC received \$15,000,000 in new capital from a transfer from the Emerging Technology Fund administered by Mass Development. Capital also included accumulated net resources from MCDFC and EST transferred on October 1, 2010. These funds are restricted for the general purposes of MGCC as outlined in its enabling legislation. There was a possibility that the Commonwealth will make available \$20,000,000 in new capital for MGCC from bond proceeds, to be disbursed \$5,000,000 per year. However, the Bond counsel to A&F has interpreted the legislation to read that the Commonwealth cannot pledge its full faith and credit by using bond proceeds for loan funds. In lieu of this change, MGCC staff solicited term sheets from three banks and has determined that the terms proposed by East Boston Savings Bank for a \$10 million line of credit is the most beneficial. On September 19, 2013, the Board voted to authorize staff to negotiate final terms and enter into a loan agreement with East Boston Savings Bank for up to \$10,000,000. East Boston Savings Bank extended a commitment for this financing in October, 2013. The loan closed on January 21, 2014.

Transfer funding from the former EST included:

Federal Title IX Revolving Loan Fund #1: The fund was capitalized in fiscal year 1993 with a \$2,000,000 grant from the Economic Development Administration of the U.S. Department of Commerce (EDA). Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000.

Federal Title IX Revolving Loan Fund #2: The fund was capitalized in fiscal year 1998 with a \$2,000,000 grant from EDA. Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000.

State Small Business Credit Initiative: On September 27, 2010, the President of the United States signed into law the "*Small Business Jobs Act of 2010*" to help increase credit availability for small businesses. The Act created the State Small Business Credit Initiative (SSBCI) and appropriated \$1.5 billion. Massachusetts' allocation is approximately \$22 million, of which approximately \$14 million is allocated for MGCC. As of June 30, 2014, MGCC has received \$9,162,768. The balance of the funding will be disbursed through 2017. MGCC has matched the principal of these loans on a 50/50 basis.

The Federal Title IX Revolving Loan Funds and SSBCI are accounted for as a separate component of restricted net position. The remaining net position is restricted within the mandates of MGCC enabling legislation.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013

(Continued)

Condensed Financial Information

Assets total \$49,133,938. The major components are:

Cash and Cash Equivalents: MGCC began the fiscal year with a total of \$24,570,576 in cash. At June 30, 2014, total cash was \$27,847,407, of which \$664,501 was restricted. The increase in cash of \$3,276,831 was due to an unusual amount of early payoffs, SSBCI funding, and a decrease in new loans closed.

Loans Receivable: Loan receivables at June 30, 2014, totaled \$24,685,319, a net decrease of \$2,109,927 from the previous year. During the fiscal year, MGCC received \$13,317,513 in principal repayments, including \$5,145,765 in early payoffs, and closed forty loans and guarantees totaling \$13,088,071.

In the prior fiscal year, principal repayments totaled \$11,920,349, including \$4,671,000 in early payoffs, with forty-five loans and guarantees closed totaling \$13,016,602.

The loan loss reserve decreased \$1,223,687 to \$3,937,106. The decrease was attributed to loan write-offs totaling \$1,670,573 and a decision to adjust reserve amounts for specific loans based upon analysis of other confirmed income sources and collateral.

Liabilities total \$838,124. The major components are:

Technical Assistance, Capacity Building and Educational Program: The Technical Assistance, Capacity Building and Educational Program targets minority and women construction contractors and minority and woman professional services (design and engineering) firms; provided that, access to the program shall be open to any small business that meets the participation criteria. A total of \$550,000 was funded through fiscal year 2013 to pay for a program to be operated by Next Street, which was selected after a review and rating by an independent review committee.

At the conclusion of the first year of the program, MGCC requested detail on the expenditure of program funds by Next Street, which they were unable to provide. That triggered an audit which was performed by A&F. The audit results documented less than satisfactory outcomes, both for participation rates, completion rates and advisory and mentoring hours provided. The results of that audit have been provided to A&F for their decision as to how to proceed.

Beginning in October, 2013, the Executive Office for Administration and Finance, due to the results of the audit, transferred all project responsibilities for the program to Ronald Marlow, Assistant Secretary for Access and Opportunity. During the current fiscal year, a total of \$671,723 was disbursed, leaving a balance of \$664,501 at June 30, 2014. MGCC maintains the bank account and makes all disbursements per memos approved by Ronald Marlow.

Accounts Payable, Accrued Payroll and Pension, and Other Accruals: Accounts payable and accrued expenses at June 30, 2014, totaled \$173,623 compared to \$161,718 for the prior year. The increase of \$11,905 was primarily in accrued expenses.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013

(Continued)

Condensed Financial Information (Continued)

Revenues: Operating revenues for the year ended June 30, 2014, totaled \$2,774,336, compared to \$2,993,804 for the prior year, a net increase of \$219,468. This increase was due to a decrease in portfolio interest income, loan fees and management fees totaling \$237,412, and offset by an increase in money market interest income and other income of \$17,944.

Expenses: Operating expenses for the year ended June 30, 2014, totaled \$2,916,110, compared to \$2,868,728 for the prior year, a net increase of \$47,382. The major component of the increase was occupancy at \$58,620. The increase was due to a full twelve months of rent compared to eight months in the previous year (four months of free rent in year one of the lease).

Analysis of Significant Variations between Original and Budgeted Amounts

Revenues ended the year less than the budget by a net of approximately \$959,000. Portfolio interest income and fees were off budget by \$1,040,295. However, this decrease was reduced by an increase in investment interest of \$28,681, and other revenue items not budgeted for; reimbursed legal fees \$26,962, and management fees \$25,341.

Our overall loan portfolio ended the year at approximately \$24,727,000, a net decrease of \$2,068,000 from last year's ending balance of approximately \$26,795,000. The decrease in loan volume was principally due to traditional banks being more aggressive on the credit side as they needed to increase their volume of lending and further evidenced by nineteen of MGCC's loans being repaid early through bank borrowings. Additionally, the demand for bank capital has leveled out as companies are cautiously optimistic about the stability of the economy and any true growth, hence curtailing their expansion and borrowing needs at this time.

Total actual operating expenses were less than the budgeted amounts by \$350,000. A summary of the major variances are as follows: payroll was under budget by \$44,000 because of a decision not to hire a loan officer half way through the year; health insurance was under budget by \$66,000 due to a slight decrease in premiums as opposed to an expected 10% to 15% increase; legal expenses were over budget by \$37,000, but due to \$81,000 in reimbursement, the net expense was under budget by \$44,000, technical assistance had a favorable budget variance of \$117,000 mainly because of the decrease in loan volume.

MGCC had net non-operating items that decreased the impact of the change in net position by \$1,549,000 compared to a positive impact of \$2,005,000 per the budget. The major variance is the non-accrual of the SSBCI's 3rd tranche of funds. At June 30, 2014, MGCC had not used the majority of the 2014 funds received in March, and is unsure, given the decrease in new loan activity, that they will use the full amount in fiscal year 2015. The reduction in the reserve by \$1,651,000 helped to offset the decrease in non-operating items.

MGCC issued \$1,200,000 in grants as of June 30, 2014, including \$500,000 to SEED to match an award to them from the U.S. Treasury, compared to the \$1,800,000 budgeted.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

DRAFT

**STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013**

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 27,182,906	\$ 23,234,352
Restricted cash	664,501	1,336,224
Accounts receivable	195,067	4,774,991
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$770,000 and \$940,000 at June 30, 2014 and 2013, respectively	4,054,090	3,940,703
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$180,000 and \$285,000 at June 30, 2014 and 2013, respectively	245,662	243,562
Prepaid expenses and other	92,302	72,071
Total current assets	32,434,528	33,601,903
LOANS RECEIVABLE , net of current portion and allowance for uncollectible loans of approximately \$3,170,000 and \$4,220,000 at June 30, 2014 and 2013, respectively	16,694,123	17,693,750
PROPERTY AND EQUIPMENT , net	5,287	14,964
Total assets	\$ 49,133,938	\$ 51,310,617
<u>LIABILITIES AND NET POSITION</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 173,623	\$ 161,718
Advances	-	209,912
Special program escrow liability	664,501	1,336,224
Total current liabilities	838,124	1,707,854
NET POSITION:		
Restricted - State Small Business Credit Initiative	9,155,966	9,401,876
Restricted - Federal Title IX RLF	3,916,097	1,374,197
Restricted by enabling legislation	35,223,751	38,826,690
Total net position	48,295,814	49,602,763
Total liabilities and net position	\$ 49,133,938	\$ 51,310,617

The accompanying notes are an integral part of these general purpose statements.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

DRAFT

STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:		
Interest income on loans	\$ 2,145,088	\$ 2,267,971
Management and other fees	426,090	540,619
Interest income on cash reserves	176,196	182,784
Other revenue	26,962	2,430
	<hr/>	<hr/>
Total operating revenues	2,774,336	2,993,804
	<hr/>	<hr/>
OPERATING EXPENSES:		
Employee compensation	2,243,107	2,232,124
Professional fees	269,929	252,912
Occupancy	189,234	130,614
Portfolio and credit administration	40,919	14,699
Supplies	21,409	22,645
Other expenses	20,998	23,644
Travel	20,370	25,329
Telephone	19,599	21,571
Information technology	19,550	13,151
Meetings	14,844	12,442
Printing and postage	13,652	10,211
Insurance	12,685	13,314
Depreciation	9,677	16,430
Maintenance and repair	8,874	11,252
Advertising	6,271	26,934
Dues and memberships	4,992	7,088
Moving expenses	-	34,368
	<hr/>	<hr/>
Total operating expenses	2,916,110	2,868,728
	<hr/>	<hr/>
Changes in net position from operations before loan loss recovery	(141,774)	125,076
LOAN LOSS RECOVERY, net	34,825	9,899
	<hr/>	<hr/>
Changes in net position from operations	(106,949)	134,975
	<hr/>	<hr/>
NON-OPERATING REVENUE (EXPENSE):		
State appropriation	-	4,644,024
Grant expense	(1,200,000)	(725,000)
	<hr/>	<hr/>
Total non-operating revenue (expense)	(1,200,000)	3,919,024
	<hr/>	<hr/>
Changes in net position	\$ (1,306,949)	\$ 4,053,999
	<hr/>	<hr/>

The accompanying notes are an integral part of these general purpose statements.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

NET POSITION, June 30, 2012	\$ 45,548,764
Changes in net position	<u>4,053,999</u>
NET POSITION, June 30, 2013	49,602,763
Changes in net position	<u>(1,306,949)</u>
NET POSITION, June 30, 2014	<u><u>\$ 48,295,814</u></u>

The accompanying notes are an integral part of these general purpose statements.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts of interest income	\$ 2,417,504	\$ 2,381,068
Receipts of management fees and other	416,530	510,391
Other revenue	26,962	2,430
Employee compensation	(2,236,133)	(2,232,994)
Interest payments to lenders	-	(446)
Payments for supplies and services	(678,626)	(613,351)
Grant expense	<u>(1,200,000)</u>	<u>(725,000)</u>
Net cash used in operating activities	<u>(1,253,763)</u>	<u>(677,902)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans disbursed	(13,088,071)	(13,016,602)
Loan recoveries	383,391	8,458
Proceeds from loan repayments	13,317,513	11,918,619
Special program disbursement	<u>(671,723)</u>	<u>(356,671)</u>
Net cash used in investing activities	<u>(58,890)</u>	<u>(1,446,196)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
State appropriation	4,589,484	1,090,266
Repayments of principal of notes payable	<u>-</u>	<u>(41,959)</u>
Net cash provided by financing activities	<u>4,589,484</u>	<u>1,048,307</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,276,831	(1,075,791)
CASH AND CASH EQUIVALENTS, beginning of year	<u>24,570,576</u>	<u>25,646,367</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 27,847,407</u>	<u>\$ 24,570,576</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net position	\$ (1,306,949)	\$ 4,053,999
Adjustments to reconcile changes in net position to net cash and cash equivalents used in operating activities:		
Depreciation	9,677	16,430
Loan loss (recovery) provision	(34,825)	(9,899)
Changes in operating assets and liabilities:		
Accounts receivable	(9,560)	(4,674,252)
Accrued interest receivable	96,220	(69,687)
Prepaid expenses and other	(20,231)	(6,101)
Accounts payable and accrued expenses	<u>11,905</u>	<u>11,608</u>
Net cash used in operating activities	<u>\$ (1,253,763)</u>	<u>\$ (677,902)</u>

The accompanying notes are an integral part of these general purpose statements.

MASSACHUSETTS GROWTH CAPITAL CORPORATION
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**

OPERATIONS AND NONPROFIT STATUS

Massachusetts Growth Capital Corporation (MGCC) is a component unit of the Commonwealth of Massachusetts (the Commonwealth) formed on October 1, 2010, under Chapter 40W of the Massachusetts General Laws. Chapter 40W effectively merged two pre-existing entities, Massachusetts Community Development Finance Corporation (MCDFC) and Economic Stabilization Trust Fund (EST). MGCC is exempt from Federal and state income taxes. The purpose of the legislation was to expand upon the success and the mission of the predecessor entities and to recapitalize the new organization. MGCC functions as a one-stop resource for debt and equity financing for small businesses. The purpose of MGCC is to create and preserve jobs and promote economic development throughout the Commonwealth, with special attention paid to small business needs in underserved areas, gateway cities and low and moderate-income communities.

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – GASB Standards

The accompanying general purpose financial statements were prepared on the accrual basis of accounting. Because MGCC is a quasi-public corporation, its accounting policies and general purpose financial statement presentation is governed by standards issued by the Governmental Accounting Standards Board (GASB). MGCC has adopted GASB accounting standard for *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*. This standard outlines financial reporting requirements for state and local governments. MGCC is considered a special purpose government organization that conducts only business-type activities within the meaning of this standard and, therefore, only has enterprise funds within its proprietary fund. MGCC has no governmental funds. As such, MGCC is not required to present government-wide financial statements, but rather only the accompanying fund financial statements. In applying the provisions of this standard, organizations like MGCC can use standards applicable to proprietary fund accounting, and are not required to follow the provisions of governmental fund accounting.

MGCC follows the GASB standard, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, MGCC has elected to apply the provisions of all relevant pronouncements of Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB codifications. References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC) and the GASB Codification.

Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are stated net of an allowance for uncollectible loans (see Notes 3 and 4). Interest on loans is calculated by using the simple interest method on monthly balances of the principal amount outstanding. The allowance for uncollectible loans is established through a provision for loan losses charged to operations. The allowance is an amount that management believes will be adequate to absorb expected losses on existing loans that may become uncollectible. Management evaluates loan collectability through consideration of factors such as previous loss experience, performance of individual loans in accordance with contract terms, financial strength and cash flows of the borrower, realizable values of collateral, and current economic conditions that may affect the borrower's ability to repay.

MASSACHUSETTS GROWTH CAPITAL CORPORATION
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consist of checking, money market and savings accounts.

Restricted Cash

Restricted cash includes the cash related to a special program escrow (see Note 8).

Advertising Costs

MGCC expenses advertising costs as they are incurred.

Revenue Recognition

Revenues from interest on loans and on cash and other sources are recorded as earned on the accrual basis of accounting. Loan loss recoveries are recorded in the year of recovery when cash has been received or collection is assured. Loan origination fees are reported as revenue upon close of the loan.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Renewals and betterments are capitalized, while repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Furniture and equipment	3 - 7 years
Leasehold improvements	Term of lease

Estimates

The preparation of general purpose financial statements in accordance 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 general purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MASSACHUSETTS GROWTH CAPITAL CORPORATION
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Net Position

MGCC's financial resources are restricted as follows:

State Small Business Credit Initiative - The fund was capitalized in fiscal year 2012 with funds received from the Commonwealth. MGCC is to receive \$13,932,072 over a three-year period (see Note 11). MGCC has matched the principal of loans made with this capital on a 50/50 basis. Total funds earned to date by MGCC were \$9,288,048 as of June 30, 2014 and 2013. MGCC is to receive the remaining funds upon meeting certain conditions. As of June 30, 2014 and 2013, \$125,280 and \$4,714,764, respectively, of these funds are included in accounts receivable. The net position balance was \$9,155,966 and \$9,401,876 as of June 30, 2014 and 2013, respectively.

Federal Title IX Revolving Loan Fund (RLF) #1 - The fund was capitalized in 1993 with a \$2,000,000 grant from the Economic Development Administration of the U.S. Department of Commerce (EDA). Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000. The net position balance was \$1,624,572 and \$635,290 as of June 30, 2014 and 2013, respectively.

Federal Title IX Revolving Loan Fund (RLF) #2 - The fund was capitalized in fiscal year 1998 with a \$2,000,000 grant from EDA. Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000. The net position balance was \$2,291,525 and \$738,907 as of June 30, 2014 and 2013, respectively.

Restricted by Enabling Legislation - The remaining net positions are deemed restricted in accordance with GASB for purposes included within Chapter 40W, MGCC's enabling legislation. The net position balance was \$35,223,751 and \$38,826,690 as of June 30, 2014 and 2013, respectively.

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. Instruments which are generally included in this category include equity and debt securities publicly traded on an exchange.
- Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 – Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

MASSACHUSETTS GROWTH CAPITAL CORPORATION
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Guarantees

MGCC may issue guarantees to public or private entities for the purpose of causing such entities to provide financing to a business. A collateral requirement on the guarantees is determined on an individual basis by MGCC's Board of Directors. As of June 30, 2014 and 2013, MGCC had six and five outstanding guarantees with values of \$1,380,000 and \$1,290,000, respectively. These guarantees will expire at various times through May, 2019.

Massachusetts Municipal Depository Trust Investments

MGCC holds investments in the Massachusetts Municipal Depository Trust (MMDT) in the amount of \$3,025,045 and \$3,692,277 at June 30, 2014 and 2013, respectively. MMDT is an investment program, founded in 1977 under the supervision of the State Treasurer of the Commonwealth, in which municipalities may pool excess cash for investment. MMDT was established to provide professionally managed investment funds to meet the investment needs of the Commonwealth and its political subdivisions. MGCC invests in MMDT's Cash Portfolio and Short-Term Bond Fund and these investments are considered to be cash and cash equivalents.

The table below represents funds held by MMDT. The MMDT - cash portfolio is managed independently and MGCC cannot influence how investments are allocated among the categories disclosed as follows as of June 30:

<u>Securities With an Effective Maturity of:</u>	<u>Percentage of Total Net Position</u>	
	<u>2014</u>	<u>2013</u>
1 - 30 Days	53.5%	40.4%
31 - 90 Days	27.7	39.1
91 - 180 Days	11.7	15.5
181 - Days or more	7.1	5.0
Total	<u>100.0%</u>	<u>100.0%</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(2) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>Balance June 30, 2012</u>	<u>2013 Additions</u>	<u>2013 Disposals</u>	<u>Balance June 30, 2013</u>	<u>2014 Additions</u>	<u>Balance June 30, 2014</u>
Cost:						
Furniture and equipment	\$152,752	\$ -	\$ -	\$152,752	\$ -	\$152,752
Leasehold improvements	<u>10,326</u>	<u>-</u>	<u>(10,326)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cost	<u>163,078</u>	<u>-</u>	<u>(10,326)</u>	<u>152,752</u>	<u>-</u>	<u>152,752</u>
Accumulated depreciation:						
Furniture and equipment	121,358	16,430	-	137,788	9,677	147,465
Leasehold improvements	<u>10,326</u>	<u>-</u>	<u>(10,326)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation	<u>131,684</u>	<u>16,430</u>	<u>(10,326)</u>	<u>137,788</u>	<u>9,677</u>	<u>147,465</u>
Property and equipment, net	<u>\$ 31,394</u>	<u>\$(16,430)</u>	<u>\$ -</u>	<u>\$ 14,964</u>	<u>\$ (9,677)</u>	<u>\$ 5,287</u>

(3) LOANS RECEIVABLE

MGCC functions as a one-stop resource for debt financing for small businesses, including woman and minority-owned business and community development efforts. MGCC's main function to date has been to provide working capital debt financing. MGCC makes loans of \$100,000 to \$1,000,000 for working capital, capital equipment and acquisition costs. Standard terms for these loans include interest at the *Wall Street Journal's* prime rate plus 3%, with a minimum rate of 10% and a maximum rate of 15%. The loans include both variable and fixed rate amortizing loans with up to five year maturities. The loans are also primarily secured by subordinated liens on assets ensuring that MGCC can maximize any traditional financing alternatives.

There were 120 and 125 loans receivable outstanding at June 30, 2014 and 2013, respectively. Loans receivable are stated net of allowance for losses as follows at June 30:

	<u>2014</u>	<u>2013</u>
Principal outstanding	\$24,685,319	\$26,795,246
Less - allowance for loan losses (see Note 4)	<u>3,937,106</u>	<u>5,160,793</u>
Loans receivable, net	<u>\$20,748,213</u>	<u>\$21,634,453</u>

Future payments of principal of loans receivable for the next five years are due as follows:

2015	\$4,821,827
2016	\$4,774,328
2017	\$4,083,531
2018	\$2,998,268
2019	\$1,823,357

MASSACHUSETTS GROWTH CAPITAL CORPORATION
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(4) ALLOWANCES FOR LOSSES

MGCC provides allowances for expected loan and interest losses (see Notes 1 and 3). The allowances are based on MGCC's loan rating policy, which is updated periodically for changes related to individual loans receivable. The loan and interest loss allowances consist of the following as of June 30:

	<u>2014</u>		<u>2013</u>	
	<u>Loans</u>	<u>Interest</u>	<u>Loans</u>	<u>Interest</u>
Balance, beginning of year	\$ 5,160,793	\$284,764	\$5,942,248	\$238,832
Net provision for losses	446,886	(98,320)	(62,770)	61,329
Write-offs	<u>(1,670,573)</u>	<u>(6,590)</u>	<u>(718,685)</u>	<u>(15,397)</u>
Balance, end of year	<u>\$ 3,937,106</u>	<u>\$179,854</u>	<u>\$5,160,793</u>	<u>\$284,764</u>

Loan loss recovery includes the following as of June 30:

	<u>2014</u>	<u>2013</u>
Net provision for losses	\$(348,566)	\$1,441
Recoveries	<u>383,391</u>	<u>8,458</u>
Loan loss recovery, net	<u>\$ 34,825</u>	<u>\$9,899</u>

(5) DEFERRED COMPENSATION AND RETIREMENT PLANS

MGCC has a deferred compensation plan which is qualified under Section 457(b) of the Internal Revenue Code. Employees can make voluntary contributions to the plan through salary reductions. MGCC does not contribute to this plan.

MGCC maintains an additional social security replacement plan for employees. This plan is eligible to all employees upon commencement of employment. MGCC makes monthly contributions equal to 11.2% of each participant's monthly compensation from inception of employment. Employees are immediately vested in the plan upon commencement of employment. Contributions made for the years ended June 30, 2014 and 2013, were \$198,218 and \$198,062, respectively, and are included in employee compensation in the accompanying statements of revenues and expenses.

(6) COMMITMENTS AND OFF-BALANCE SHEET RISK

Lending and Guarantees

Commitments to originate loans are agreements to lend money, provided that there are no violations of any conditions established in the agreements. MGCC evaluates each request for financing on a case-by-case basis, including, but not limited to, eligibility as established by Chapter 40W of the Massachusetts General Laws, credit worthiness, collateral obtained, and any other prevailing economic factors. Once these commitments are made, MGCC is also subject to a degree of off-balance sheet risk, as MGCC has committed funds to an entity and such commitment is not recorded on the statements of net position as a liability. The performance of these entities could adversely affect the ability of MGCC to recover the committed investment. At June 30, 2014 and 2013, MGCC had commitments to lend of approximately \$5.7 million and \$11.5 million, respectively (see Note 3).

MASSACHUSETTS GROWTH CAPITAL CORPORATION
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(6) COMMITMENTS AND OFF-BALANCE SHEET RISK (Continued)

Facility Lease

In February, 2012, MGCC entered into a lease agreement for office space in Charlestown, Massachusetts. The lease is for five years and began on October 1, 2012. As part of this lease agreement, MGCC's previous lease was extended through September 30, 2012, at the same monthly rent of \$8,817, while its new space was renovated. The lease requires MGCC to maintain certain insurance coverage, and pay for its proportionate share of real estate taxes and operating expenses. Monthly rent payments under this agreement range from \$14,070 to \$15,946.

MGCC also has a short-term agreement to lease office space in Springfield, Massachusetts. Monthly rent payments under this lease agreement are \$450.

MGCC had a short-term agreement to lease office space in Worcester, Massachusetts through March, 2014. Monthly rent payments for this lease were \$193.

Rent expense under these agreements was \$175,576 and \$116,766 for the years ended June 30, 2014, and 2013, respectively, and is included in occupancy in the statements of revenues and expenses.

Future minimum payments under long-term lease obligations are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2015	\$174,468
2016	\$181,972
2017	\$189,476
2018	\$ 47,838

(7) CONCENTRATION OF CREDIT RISK

MGCC maintains its cash and cash equivalents balances in several banks in Massachusetts and MMDT (see page 13) and is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times, cash balances exceeded the insured amounts. As of June 30, 2014 and 2013, MGCC's exposure for uninsured funds was approximately \$27,100,000 and \$23,630,000, respectively. MGCC has not experienced any losses in such accounts and management believes the credit risk related to MGCC's cash and cash equivalents is not significant.

(8) SPECIAL PROGRAM ESCROW

Technical Assistance, Capacity Building and Educational Program

MGCC entered into an agreement with the Executive Office of Administration and Finance (A&F) to manage a Technical Assistance, Capacity Building and Educational Program. This program is targeted to minority and women construction contractors and minority and women professional services firms. The program will be conducted for three years and will be divided into two groups; Tier I for firms with revenues under \$1,000,000 and Tier II for those firms with revenues under \$5,000,000. By agreement with A&F, MGCC received an annual fee of \$60,000 to manage this program.

MASSACHUSETTS GROWTH CAPITAL CORPORATION
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)

(8) **SPECIAL PROGRAM ESCROW** (Continued)

Technical Assistance, Capacity Building and Educational Program (Continued)

For the years ended June 30, 2014 and 2013, MGCC earned fees of \$15,000 and \$60,000, respectively. Effective October 1, 2014, A&F assumed operational management of the program with MGCC acting solely as a fiscal agent and ending its right to the annual fee. Accordingly, the balance of these funds is presented as a liability in the accompanying statements of net position and totaled \$664,501 and \$1,336,224 as of June 30, 2014 and 2013, respectively.

(9) **NOTE PAYABLE**

Note payable as of June 30, 2012, consisted of a U.S. Small Business Administration (SBA) loan for the purpose of funding the SBA micro-loan program. The loan accrued interest at a variable rate through the life of the loan based on the aggregate amount of loans made to borrowers under this program (1.9% at June 30, 2012). This note was secured by the micro-loans and was paid off during fiscal year 2013.

(10) **ADVANCES**

Advances consist of collateral for financing arrangements at June 30, 2013. During fiscal year 2014, these advances were used to pay-off the related loans receivable balances.

(11) **LINE OF CREDIT**

During fiscal year 2014, MGCC entered into a revolving line of credit agreement with a bank in the amount of \$10 million. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's base lending rate (3.25% at June 30, 2014) and will mature on December 31, 2015. The line of credit is secured by substantially all assets. As of June 30, 2014, there were no outstanding balances under this agreement. MGCC must meet certain covenants as specified in the agreement. MGCC was in compliance with these covenants at June 30, 2014.

(12) **RECLASSIFICATION**

Certain amounts in the fiscal year 2013 general purpose financial statements have been reclassified to conform with the fiscal year 2014 presentation.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

DRAFT

SUPPLEMENTAL STATEMENT OF NET POSITION
JUNE 30, 2014

<u>ASSETS</u>	<u>MGCC</u>	<u>STATE SMALL BUSINESS CREDIT INITIATIVE</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #1</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #2</u>	<u>TOTAL</u>
CURRENT ASSETS:					
Cash and cash equivalents	\$ 21,334,421	\$ 5,848,485	\$ -	\$ -	\$ 27,182,906
Restricted cash	664,501	-	-	-	664,501
Accounts receivable	52,299	141,593	50	1,125	195,067
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$770,000	2,890,796	854,019	96,975	212,300	4,054,090
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$180,000	129,622	61,477	5,159	49,404	245,662
Prepaid expenses and other	92,302	-	-	-	92,302
Total current assets	25,163,941	6,905,574	102,184	262,829	32,434,528
LOANS RECEIVABLE , net of current portion and allowance for uncollectible loans of approximately \$3,170,000	9,527,179	5,354,804	553,160	1,258,980	16,694,123
PROPERTY AND EQUIPMENT , net	5,287	-	-	-	5,287
Total assets	<u>\$ 34,696,407</u>	<u>\$ 12,260,378</u>	<u>\$ 655,344</u>	<u>\$ 1,521,809</u>	<u>\$ 49,133,938</u>
<u>LIABILITIES AND NET POSITION</u>					
CURRENT LIABILITIES:					
Accounts payable and accrued expenses	\$ 173,623	\$ -	\$ -	\$ -	\$ 173,623
Interfund (receivable) payable	(1,365,468)	3,104,412	(969,228)	(769,716)	-
Special program escrow liability	664,501	-	-	-	664,501
Total current liabilities	(527,344)	3,104,412	(969,228)	(769,716)	838,124
NET POSITION:					
Restricted - State Small Business Credit Initiative	-	9,155,966	-	-	9,155,966
Restricted - Federal Title IX RLF	-	-	1,624,572	2,291,525	3,916,097
Restricted by enabling legislation	35,223,751	-	-	-	35,223,751
Total net position	35,223,751	9,155,966	1,624,572	2,291,525	48,295,814
Total liabilities and net position	<u>\$ 34,696,407</u>	<u>\$ 12,260,378</u>	<u>\$ 655,344</u>	<u>\$ 1,521,809</u>	<u>\$ 49,133,938</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

DRAFT

SUPPLEMENTAL STATEMENT OF NET POSITION
JUNE 30, 2013

<u>ASSETS</u>	<u>MGCC</u>	<u>STATE SMALL BUSINESS CREDIT INITIATIVE</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #1</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #2</u>	<u>TOTAL</u>
CURRENT ASSETS:					
Cash and cash equivalents	\$ 22,515,305	\$ 719,047	\$ -	\$ -	\$ 23,234,352
Restricted cash	1,336,224	-	-	-	1,336,224
Accounts receivable	28,252	4,744,014	600	2,125	4,774,991
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$940,000	2,485,342	1,110,137	169,493	175,731	3,940,703
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$285,000	98,998	64,082	8,889	71,593	243,562
Prepaid expenses and other	72,071	-	-	-	72,071
Total current assets	26,536,192	6,637,280	178,982	249,449	33,601,903
LOANS RECEIVABLE , net of current portion and allowance for uncollectible loans of approximately \$4,220,000	8,946,072	6,639,328	869,543	1,238,807	17,693,750
PROPERTY AND EQUIPMENT , net	14,964	-	-	-	14,964
Total assets	<u>\$ 35,497,228</u>	<u>\$ 13,276,608</u>	<u>\$ 1,048,525</u>	<u>\$ 1,488,256</u>	<u>\$ 51,310,617</u>
<u>LIABILITIES AND NET POSITION</u>					
CURRENT LIABILITIES:					
Accounts payable and accrued expenses	\$ 161,718	\$ -	\$ -	\$ -	\$ 161,718
Interfund (receivable) payable	(5,037,316)	3,874,732	413,235	749,349	-
Advances	209,912	-	-	-	209,912
Special program escrow liability	1,336,224	-	-	-	1,336,224
Total current liabilities	(3,329,462)	3,874,732	413,235	749,349	1,707,854
NET POSITION:					
Restricted - State Small Business Credit Initiative	-	9,401,876	-	-	9,401,876
Restricted - Federal Title IX RLF	-	-	635,290	738,907	1,374,197
Restricted by enabling legislation	38,826,690	-	-	-	38,826,690
Total net position	38,826,690	9,401,876	635,290	738,907	49,602,763
Total liabilities and net position	<u>\$ 35,497,228</u>	<u>\$ 13,276,608</u>	<u>\$ 1,048,525</u>	<u>\$ 1,488,256</u>	<u>\$ 51,310,617</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

**SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>MGCC</u>	<u>STATE SMALL BUSINESS CREDIT INITIATIVE</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #1</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #2</u>	<u>TOTAL</u>
OPERATING REVENUES:					
Interest income on loans	\$ 1,168,392	\$ 728,425	\$ 104,650	\$ 143,621	\$ 2,145,088
Management and other fees	362,415	27,550	6,800	29,325	426,090
Interest income on cash reserves	156,815	19,381	-	-	176,196
Other revenue	26,962	-	-	-	26,962
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total operating revenues	1,714,584	775,356	111,450	172,946	2,774,336
OPERATING EXPENSES:					
Employee compensation	2,063,369	91,743	43,998	43,997	2,243,107
Professional fees	285,840	75	(16,403)	417	269,929
Occupancy	168,034	-	8,422	12,778	189,234
Portfolio and credit administration	38,999	-	727	1,193	40,919
Supplies	19,681	-	697	1,031	21,409
Other expenses	16,817	1,718	971	1,492	20,998
Travel	17,625	434	919	1,392	20,370
Telephone	17,321	-	898	1,380	19,599
Information technology	17,634	-	722	1,194	19,550
Meetings	13,286	-	607	951	14,844
Printing and postage	12,088	-	615	949	13,652
Insurance	11,192	-	588	905	12,685
Depreciation	8,419	-	505	753	9,677
Maintenance and repair	7,781	-	448	645	8,874
Advertising	1,646	-	1,900	2,725	6,271
Dues and memberships	4,333	-	267	392	4,992
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total operating expenses	2,704,065	93,970	45,881	72,194	2,916,110
Changes in net position from operations before loan loss recovery (provision)	(989,481)	681,386	65,569	100,752	(141,774)
LOAN LOSS RECOVERY (PROVISION), net	<u>355,887</u>	<u>(1,079,237)</u>	<u>332,167</u>	<u>426,008</u>	<u>34,825</u>
Changes in net position from operations	(633,594)	(397,851)	397,736	526,760	(106,949)
NON-OPERATING EXPENSE:					
Grant expense	<u>(1,200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,200,000)</u>
Changes in net position	(1,833,594)	(397,851)	397,736	526,760	(1,306,949)
NET POSITION, June 30, 2013	38,826,690	9,401,876	635,290	738,907	49,602,763
Transfers of net position	<u>(1,769,345)</u>	<u>151,941</u>	<u>591,546</u>	<u>1,025,858</u>	<u>-</u>
NET POSITION, June 30, 2014	<u>\$ 35,223,751</u>	<u>\$ 9,155,966</u>	<u>\$ 1,624,572</u>	<u>\$ 2,291,525</u>	<u>\$ 48,295,814</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION

DRAFT

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2013

	<u>MGCC</u>	<u>STATE SMALL BUSINESS CREDIT INITIATIVE</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #1</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #2</u>	<u>SBA REVOLVING LOAN FUND</u>	<u>TOTAL</u>
OPERATING REVENUES:						
Interest income on loans	\$ 1,442,106	\$ 573,178	\$ 109,411	\$ 143,276	\$ -	\$ 2,267,971
Management and other fees	235,344	278,725	7,325	19,225	-	540,619
Interest income on cash reserves	177,032	5,752	-	-	-	182,784
Other revenue	1,930	500	-	-	-	2,430
Total operating revenues	<u>1,856,412</u>	<u>858,155</u>	<u>116,736</u>	<u>162,501</u>	<u>-</u>	<u>2,993,804</u>
OPERATING EXPENSES:						
Employee compensation	2,039,876	51,644	66,456	74,148	-	2,232,124
Professional fees	238,572	-	2,555	11,785	-	252,912
Occupancy	120,382	-	4,491	5,741	-	130,614
Portfolio and credit administration	13,678	-	533	488	-	14,699
Supplies	20,767	-	804	1,074	-	22,645
Other expenses	20,512	1,468	749	915	-	23,644
Travel	23,230	807	658	634	-	25,329
Telephone	19,973	-	688	910	-	21,571
Information technology	11,928	-	517	706	-	13,151
Meetings	11,336	-	491	615	-	12,442
Printing and postage	9,639	-	240	332	-	10,211
Insurance	12,251	-	466	597	-	13,314
Depreciation	14,555	-	818	1,057	-	16,430
Maintenance and repair	10,460	-	342	450	-	11,252
Advertising	24,467	-	1,165	1,302	-	26,934
Dues and memberships	6,682	-	166	240	-	7,088
Moving expenses	31,568	-	1,288	1,512	-	34,368
Total operating expenses	<u>2,629,876</u>	<u>53,919</u>	<u>82,427</u>	<u>102,506</u>	<u>-</u>	<u>2,868,728</u>
Changes in net position from operations before loan loss recovery (provision)	(773,464)	804,236	34,309	59,995	-	125,076
LOAN LOSS RECOVERY (PROVISION), net	<u>440,801</u>	<u>(459,538)</u>	<u>(18,105)</u>	<u>46,741</u>	<u>-</u>	<u>9,899</u>
Changes in net position from operations	<u>(332,663)</u>	<u>344,698</u>	<u>16,204</u>	<u>106,736</u>	<u>-</u>	<u>134,975</u>
NON-OPERATING REVENUE (EXPENSE):						
State appropriations	-	4,644,024	-	-	-	4,644,024
Grant expense	(725,000)	-	-	-	-	(725,000)
Total non-operating revenue (expense)	<u>(725,000)</u>	<u>4,644,024</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,919,024</u>
Changes in net position	(1,057,663)	4,988,722	16,204	106,736	-	4,053,999
NET POSITION, June 30, 2012	<u>39,530,398</u>	<u>4,778,174</u>	<u>619,086</u>	<u>632,171</u>	<u>(11,065)</u>	<u>45,548,764</u>
Transfers of net position	353,955	(365,020)	-	-	11,065	-
NET POSITION, June 30, 2013	<u>\$ 38,826,690</u>	<u>\$ 9,401,876</u>	<u>\$ 635,290</u>	<u>\$ 738,907</u>	<u>\$ -</u>	<u>\$ 49,602,763</u>

MASSACHUSETTS GROWTH CAPITAL CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 JUNE 30, 2014

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASS-THROUGH NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<u>U.S. Department of Commerce</u>			
Direct Funding:			
Economic Adjustment Assistance	11.307	N/A	<u>\$1,910,494</u>

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal assistance activity of MGCC and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2. FEDERAL LOANS AND GUARANTEES

MGCC received \$4,000,000 in grants from the Economic Development Administration (EDA) of the U.S. Department of Commerce under Federal Title IX to create revolving loan funds (RLF). The purpose of the Federal Title IX RLF is to address actual and anticipated defense-related economic dislocations or other adjustment problems throughout the Commonwealth. Under the terms of these agreements, MGCC must match one-third of the amounts appropriated by EDA to fund each Federal Title IX RLF. RLF loans and credit lines totaling approximately \$2,304,000 were outstanding at June 30, 2014.

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

Independent Auditor's Report

To the Board of Directors of
Massachusetts Growth Capital Corporation:

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 general purpose financial statements of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC), which comprise the statement of net position as of June 30, 2014, and the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the general purpose financial statements, and have issued our report thereon dated October 7, 2014.

Internal Control Over Financial Reporting

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

The Board of Directors of
Massachusetts Growth Capital Corporation
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Compliance and Other Matters

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

Purpose of this Report

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

Boston, Massachusetts
October 7, 2014

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Independent Auditor's Report

To the Board of Directors of
Massachusetts Growth Capital Corporation:

Report on Compliance for Each Major Federal Program

We have audited Massachusetts Growth Capital Corporation's (a component unit of the Commonwealth of Massachusetts) (MGCC), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on MGCC's major Federal program for the year ended June 30, 2014. MGCC's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its Federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for MGCC's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about MGCC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of MGCC's compliance.

Opinion on Each Major Federal Program

In our opinion, MGCC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of MGCC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MGCC's internal control over compliance with the types of requirements that could have a direct and material effect on its major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MGCC's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Boston, Massachusetts
October 7, 2014

MASSACHUSETTS GROWTH CAPITAL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2014

I. SUMMARY OF AUDITOR'S RESULTS

General Purpose Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Significant deficiency identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to general purpose financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness identified? Yes No
- Significant deficiency identified? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? Yes No

Identification of major programs:

<u>Program or Cluster Title</u>	<u>Federal CFDA Number</u>
Economic Adjustment Assistance	11.307

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

Auditee qualified as low-risk auditee? Yes No

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2014

(Continued)

II. FINANCIAL STATEMENT FINDINGS IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

Massachusetts Growth Capital Corporation

Fiscal 2014

Economic Development Business Plan



Massachusetts Growth Capital Corporation

Mission statement

The Mission of the Massachusetts Growth Capital Corporation is to foster the **creation and preservation of jobs** in small businesses, in women and minority-owned firms, and through the promotion of economic development in underserved, gateway municipalities as well as other low and moderate-income communities throughout the state.

MGCC provides a central resource at the state level that offers working capital loans, guarantees and targeted technical assistance to solve specific financial and operational problems.

To fulfill its mission, MGCC works with traditional financial institutions, non-bank lenders, community development corporations and other non-profits to provide financing for job-producing projects. MGCC also makes loans to firms in which there are no other lenders to improve their capacity to receive traditional financing.

MGCC seeks to strengthen the existing network of micro lenders across the state to ensure that all levels of financing requirements are addressed. Additionally, MGCC manages competitive grant programs that provide training and technical assistance to small businesses, including small contractors.

Business Plan Summary – The following table summarizes objectives, programs, and initiatives planned for FY14 and performance measurements by which to evaluate progress.

Goals	Strategy	Performance Measurement
Prioritize lending to meet market needs of small businesses and re-cycle capital	Refine lending offered to provide shorter term facilities, more use of guarantees, and more strategic working capital solutions	Annual loan repayment % increase from 7 % to 9 %
Continue strengthening network of micro-lenders statewide	Provide underwriting and portfolio management technical assistance to intermediaries.	Hold micro loans to intermediaries to \$1,000,000. Increase T.A. by 50 %
Have 2 or more “Tools to Grow” companies financed and growing as projected.	Closely monitor consulting results with all companies in program to accelerate timing	Highlight 2 or more companies in program beginning to grow at an annual rate over 10%
Increase the number of banks with which MGCC participates to stimulate more bank loans	Call on banks with which MGCC has not yet participated or with which we have only done 1 loan	Increase number of participating banks from 43 to 58 or 35 % increase
Ensure management assistance capability is known to participating lenders and borrowers	Create summary brochure regarding policy and types of management assistance provided	Increase number of companies assisted from 25 to 40 or 60 % increase