OFFICE OF PERFORMANCE MANAGEMENT & OVERSIGHT
FISCAL 2013 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, which includes all of the following information and demonstrates progress made against the Annual Plan submitted for the same year.

Based on review of Performance to Plan, the Office of Performance Management and Oversight will annually re-evaluate the goals and measures established by the agencies. The Office will recommend changes to goals and measures as appropriate to align with the statewide economic development policy and plan.

The annual reports of each agency will be published on the official website of the Commonwealth, and be electronically submitted to the clerks of the Senate and House of Representatives, the Chairs of the House and Senate Committees on Ways and Means and the House and Senate Chairs of the Joint Committee on Economic Development and Emerging Technologies.

Filing Instructions:

The Fiscal Year 2013 report is due no later than **Friday, November 1, 2013**. An electronic copy of the report and attachments A & B should be e-mailed to Anne.Struthers@state.ma.us.

1) AGENCY INFORMATION

Agency Name	Massachusetts Development Finance Agency
Agency Head **Title**	**Marty Jones** **President and CEO**
Website	**www.massdevelopment.com**
Address	**99 High Street, Boston, MA 02110**

2) MISSION STATEMENT

Please include the Mission Statement for your organization below.

MassDevelopment's mission is to stimulate economic development and industrial growth, increase

employment, build communities, promote prosperity and general welfare, and eradicate blight across the Commonwealth.

3) Performance on Goals and Objectives

Please provide details on the agency's progress and accomplishments for Fiscal Year 2013 as it relates to the Fiscal Year 2013 Plan submitted by your agency. This information should be included as **Attachment A and should include prior year perspective.** In addition to your Performance to Plan Report, Questions 5 through 10 provides guidance on the specific information required under Chapter 240 of the Acts of 2010.

Please see previously submitted FY13 Annual Performance Report for information on achievement of goals laid out in the Agency's FY13 Business Plan.

4) Accounting

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

	Amount
Receipts	$92,024,047
Expenditures	$108,220,305
Assets	$605.7 million
Liabilities	$212 million

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 FY13 in the **Performance on Goals and Objectives** section of this report. Information should include the number, nature and amounts of investments made and grants awarded by your agency along with job, investment and/or other economic development impact. Please list the name(s) of the investment and/or grant programs offered by your agency in the space provided below:

Finance Programs

<u>Bond Financing</u>

MassDevelopment's bond financing programs offer a cost-effective way to finance real estate and equipment needed to meet the Commonwealth's economic development goals. MassDevelopment

offers tax-exempt and taxable bonds; pool loans; value leases; and the capital financing 501 program.

Loans & Guarantees

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

Tax Credit Financing

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

Specialty Programs

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

6) Debt or Equity Investment Details

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

If **Yes**, please provide detailed information on debt and/or equity investments made during FY13 in the **Performance on Goals and Objectives** 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:

See Sections 7 and 8.

7) Loan Details

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

If **Yes**, please provide detailed information on loan(s) and/or guarantee(s) made during FY13 in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the types of loan(s) and/or guarantee(s) offered by your agency in the space provided below:

Lending

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

8) Other forms of Financing or Financial Assistance?

If your agency provides any other form of financing or financial assistance, please include FY13 details in the **Performance on Goals and Objectives** section of this report along with job, investment and/or other economic development impact. Please list the types of other forms of financing offered by your agency in the space provided below:

Bond Financing

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

Specialty Programs

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

9) Patents or Products

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

If **Yes**, please include details in the **Performance on Goals and Objectives** 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:

[Please enter the details on patents or products here.]

10) Technical Assistance

If your agency provides technical assistance, please provide detailed information on technical assistance provided during FY13 in **the Performance on Goals and Objectives** section of this report along with job, investment, and/or other economic development impact. Please list the name(s) of the technical assistance programs offered by your agency in the space provided below:

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

MassDevelopment
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Annual Performance Report— Fiscal Year 2013

Deval L. Patrick, Governor

Greg Bialecki, Chairman and Secretary, Executive Office of Housing and Economic Development

Marty Jones, President & CEO

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Annual Performance Report— Fiscal Year 2013

GOAL	RESULT/TREND	FY14 Business Plan Alignment
1. Create and retain jobs.	↓	Reported in Agency Scorecard—Theme 1A
2. Strengthen and champion economically-challenged communities including Gateway Cities.	↑	Addressed in FY14 Business Plan Goals
3. Build out Devens and move it toward self-sustainability.	→	Addressed in FY14 Business Plan Goals
4. Provide access to capital for businesses and non-profits throughout the Commonwealth.	↑	Reported in Agency Scorecard—Theme 1B
5. Work with federal, state, local, nonprofit, and private partners to strengthen the Commonwealth's defense sector.	↑	Addressed in FY14 Business Plan Goals
6. Support manufacturing.	→	Addressed in FY14 Business Plan Goals
7. Support innovation and entrepreneurship.	↑	Choosing to Compete Goal
8. Support regional development through infrastructure investments and local empowerment.	↑	Choosing to Compete Goal & Addressed in FY14 Business Plan Goals
9. Increase the ease of doing business in the Commonwealth.	→	Choosing to Compete Goal
10. Address Massachusetts cost competiveness. (* Includes Housing results)	↑	Choosing to Compete Goal & Housing is-Addressed in FY14 Business Plan Goals

Color coding: Goal Fully Completed (Green); Goal Partially Completed (Yellow); Goal Not Completed/Action Underway (Red)

Directional Coding (for Trend): Up Arrow (Trend Positive), Horizontal Arrow (Trend to Monitor); Down Arrow (Trend Negative) (as compared to FY12)

MASSDEVELOPMENT
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1. Create Jobs

ACTION

Provide financing and real estate services.

MEASUREMENT

# of construction jobs

 # permanent jobs

# of jobs by region

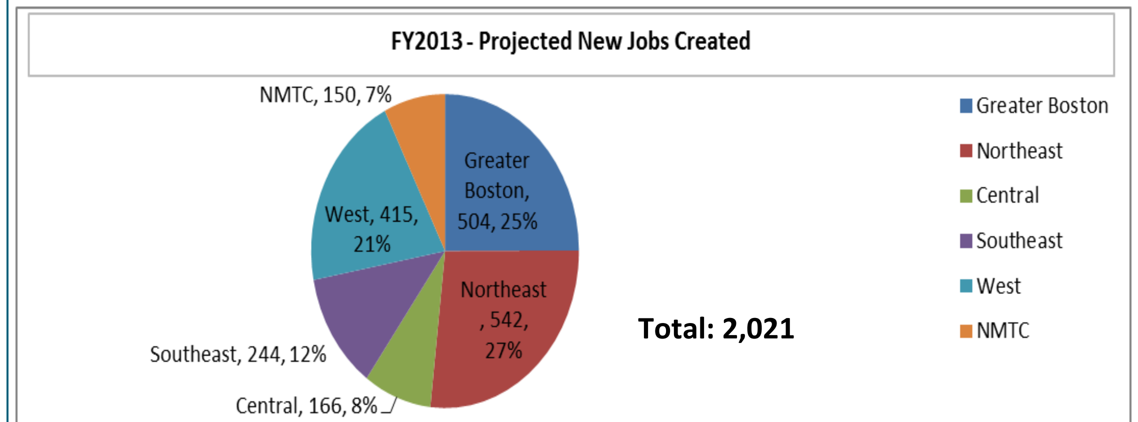
**Job creation measures 3 year projection of new permanent jobs by borrower and application of the IM-PLAN formula for construction jobs.*

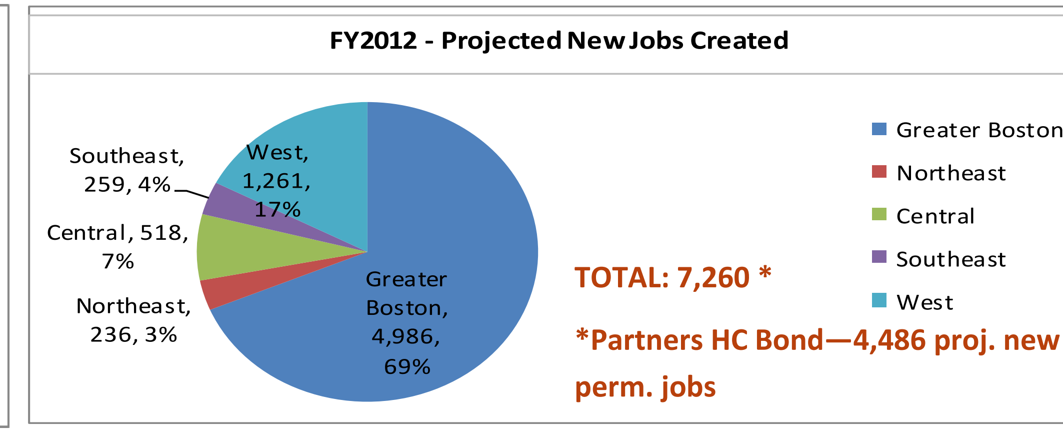
TREND

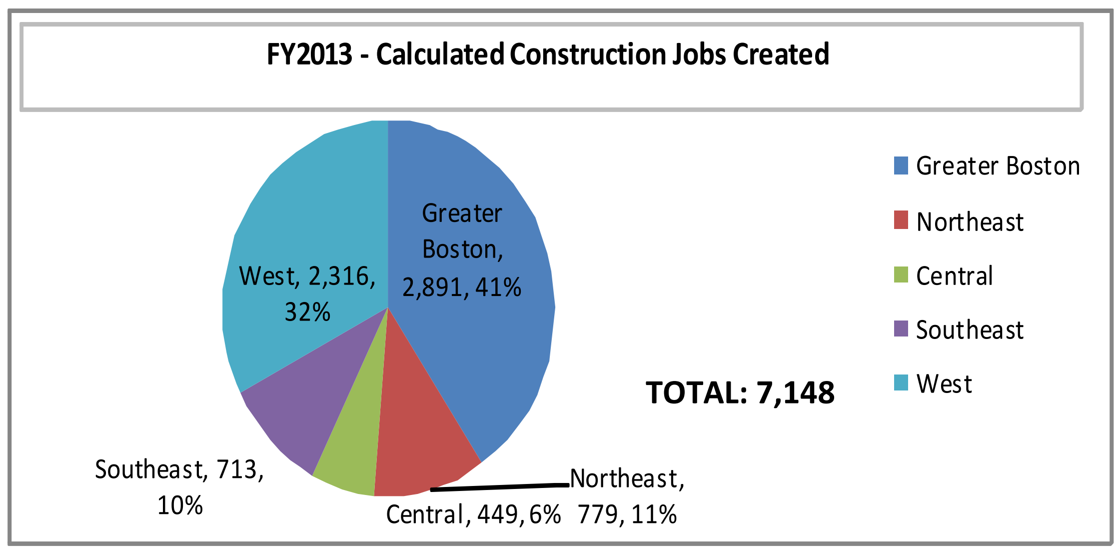
- **Total Jobs Created decreased by 20%**
- **Total New Permanent Jobs Created decreased by 72% due to mix of financing type**
- **Total Construction Jobs Created Increased by 36% due to mix of financing type**

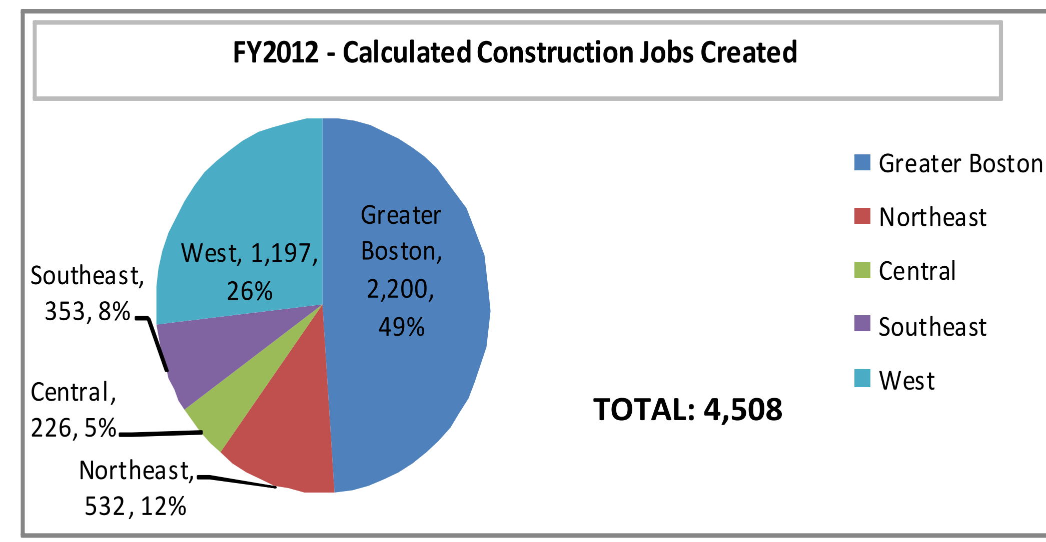
Context: Total financing volume has remained relatively static from FY13 ($2.33B) to FY13 ($2.30B). All jobs created are projections.

RESULTS

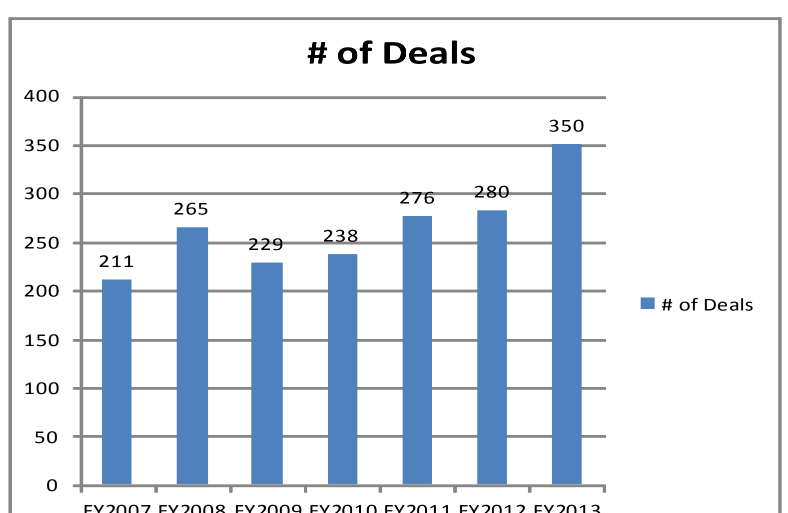


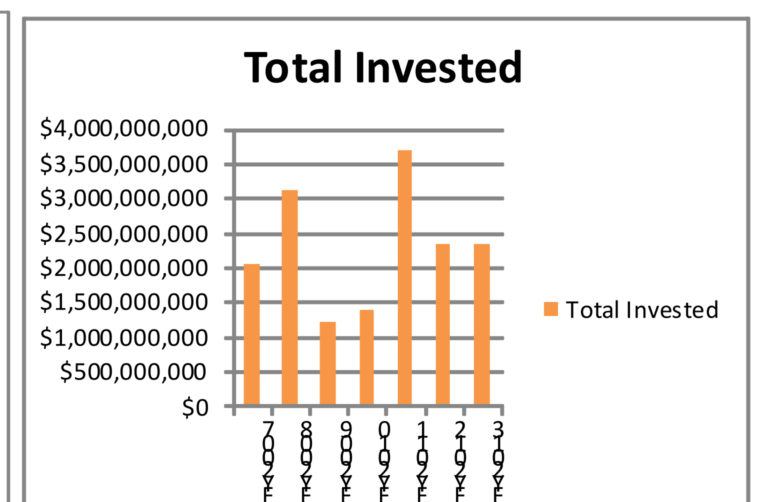


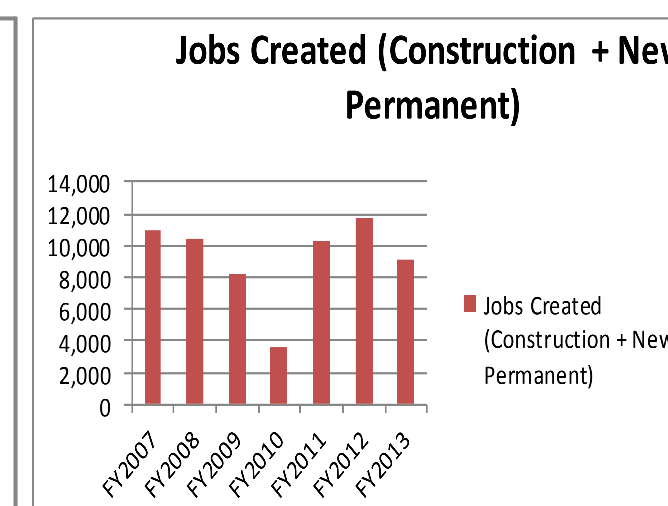




MassDevelopment Investment Trend—FY2007—FY2013







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2. Strengthen and champion economically challenged communities including Gateway Cities.

ACTION

Provide financing and real estate services.

MEASUREMENT

# of projects in Gateway Cities

$ invested in Gateway Cities

 # jobs in Gateway Cities (new permanent + construction)

TREND

- **36% increase in projects in Gateway Cities**
- **18% decrease in total funding to Gateway Cities**
- **Nearly triple # of projected jobs created in Gateway Cities**

RESULTS

FY 2013—Gateway City Results

# of projects in Gateway Cities:	$ invested in Gateway Cities:	# projected jobs created in Gateway Cities:
•127	•$482,497,768	•3,298

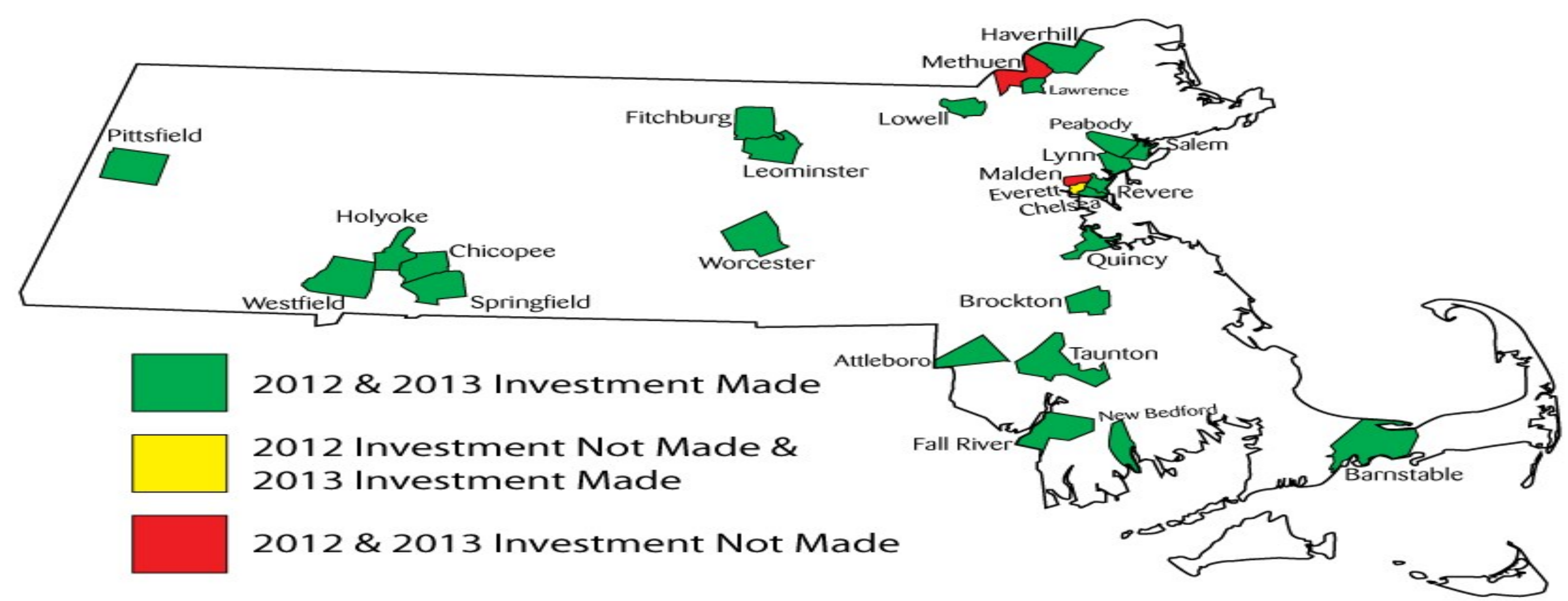
FY 2012—Gateway City Results

# of projects in Gateway Cities:	$ invested in Gateway Cities:	# projected jobs created in Gateway Cities:
•81	•$591,999,566 *	•1,156

***($ Invested includes 2 UMassMemorial Med. Ctr. bonds ($100M))**

**Job creation measures 3 year projection of new permanent jobs by borrower and application of the IMPLAN formula for construction jobs.*

Gateway Cities— Mass Development Investments—FY13 and FY12



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3. Build out Devens and move it toward self-sustainability

ACTION

Increase sources of revenue and manage/reduce expenses

MEASUREMENT

- Acres of New Development Constructed
- % Infrastructure Complete for Full Build out
- Total $ Invested
- % Reduction in Annual Deficit
- Growth in Total Assessed Valuation

TREND

- Total assessed valuation trend in industrial properties should be monitored
- Grant Road development will increase residential property tax but will also drive increased education costs
- Land sales significantly down FY13 from FY12

RESULTS

DEVENS
MASSACHUSETTS

FY2013 Development—At A Glance

Acres New Development Constructed: 2

% Infrastructure Complete: 78% (No Change from FY12)

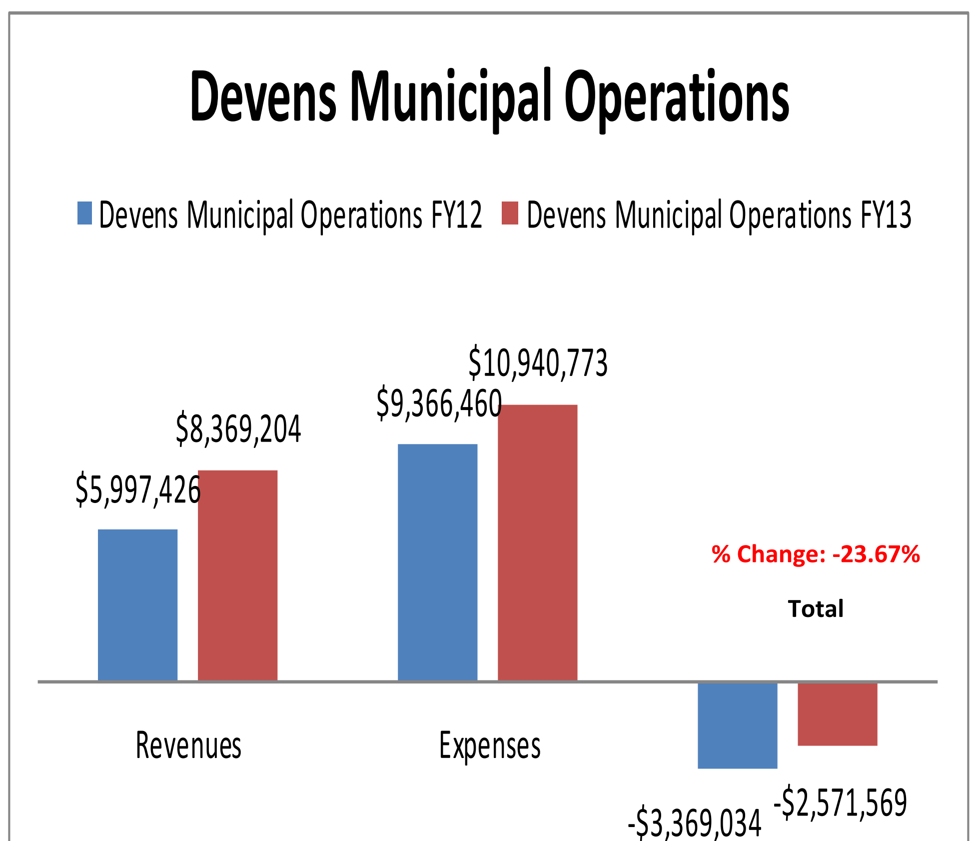
Total $ Invested:

Public: $1,665,362

Private: $34,453,013

Infrastructure Build Out—MDFA Major Projects Comparison

	FY13 % Infrastructure Complete to Plan	FY12 % Infrastructure Complete to Plan	% Change
Devens	78%	78%	0%
	Other Major Projects	(For Comparison)	
Northampton	74%	60%	14%
Taunton	50%	NA	50%



Devens Total Assessed Valuation - 2012 to 2013

	FY2012 Valuation	FY2013 Valuation	Change	% Change
Residential	$24,830,100	$26,726,700	$1,896,600	7.64%
Commercial	$27,540,600	$35,248,300	$7,707,700	27.99%
Industrial	$126,740,400	$110,475,950	-$16,264,450	-12.83%
Total	**$179,111,100**	**$172,450,950**	**-$6,660,150**	**-3.72%**

Note: FY2012 Valuation as of 1/1/2011. FY2013 Valuation as of 1/1/2012

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4. Provide access to capital for businesses and non-profits throughout the Commonwealth

ACTION

Continue to review programs & adjust to respond to borrower needs.

Pursue strategic partnerships and alternative financing structures to increase MassDevelopment's resources & lending.

MEASUREMENT

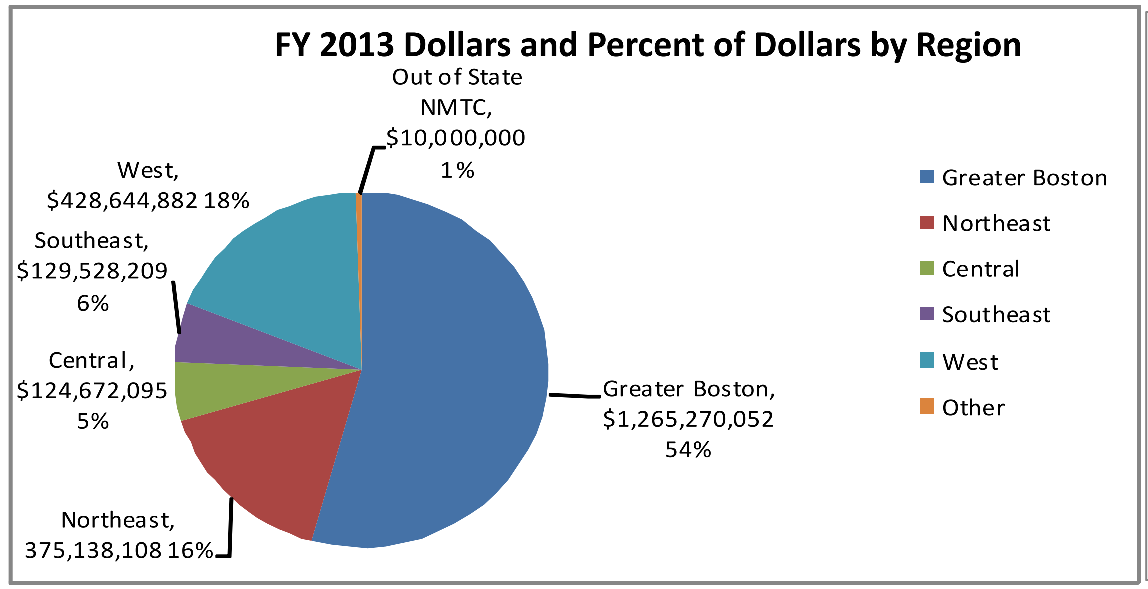
- Total $ Invested
- # of Financings

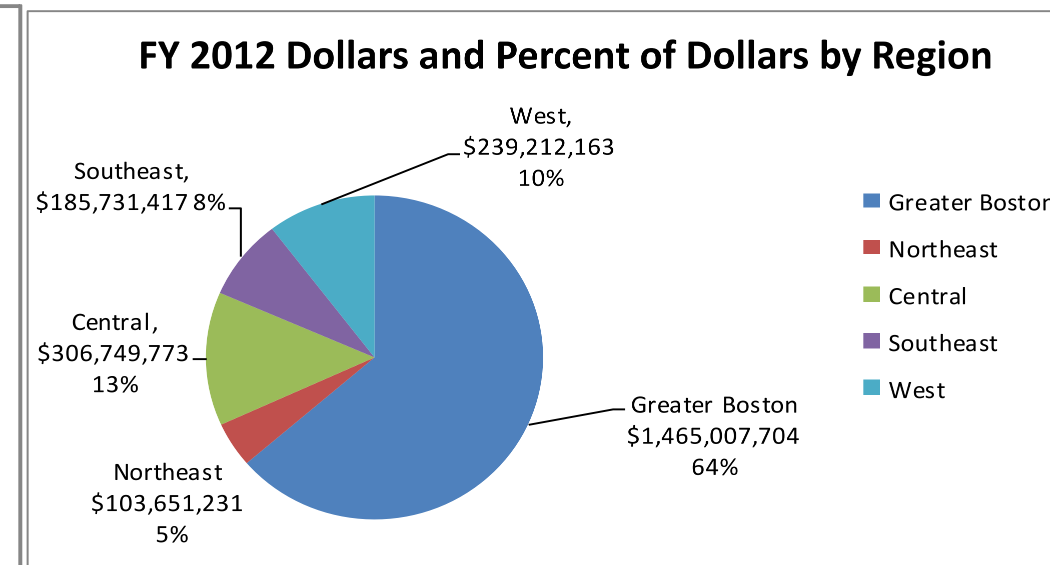
TREND

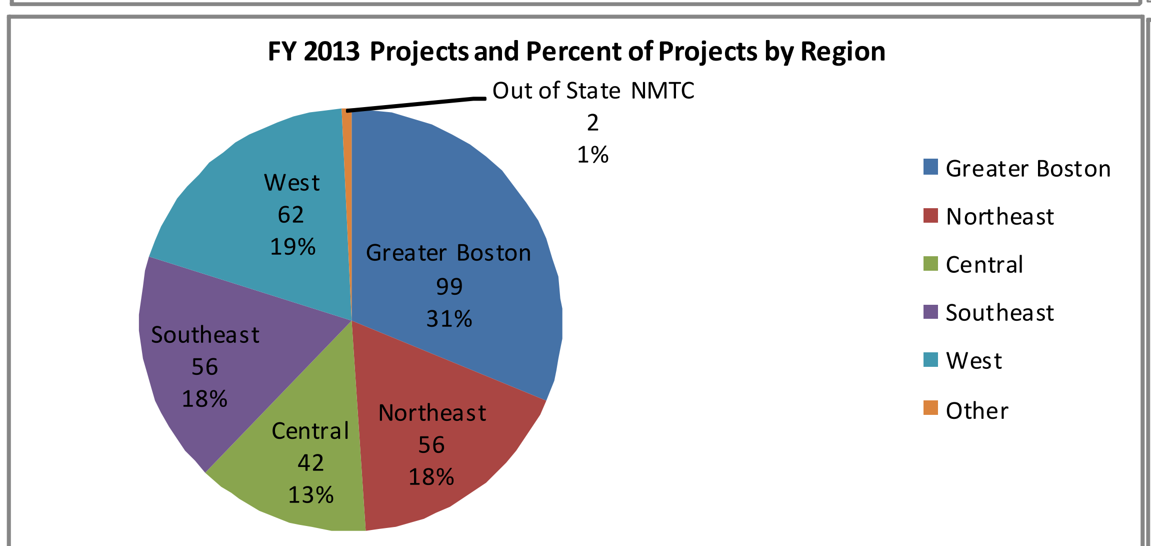
- 22% increase in total projects
- 1% increase in total volume financed
- Consideration of alternative strategies to increase resources underway including advocacy for specialty fund recapitalization

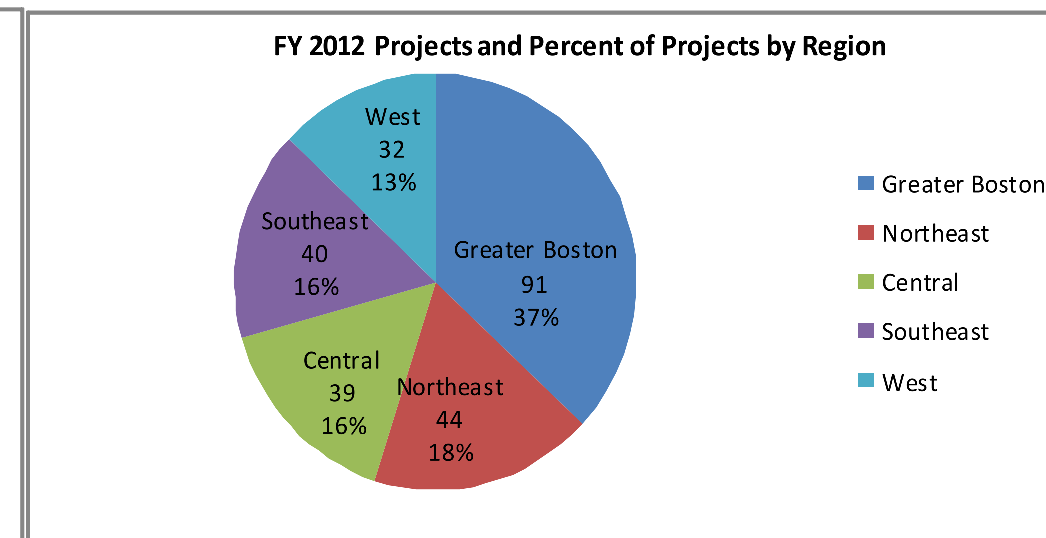
RESULTS

	Fiscal 2013	Fiscal 2012
Total $ Invested (Finance Programs)	$2,333,253,346	$2,300,352,288
Total Closings	317	246









- Secured $40M allocation of New Markets Tax Credits on behalf of the Commonwealth to support economic development project financing.
- Secured $2.3M grant from U.S. Dept. of Education on behalf of the Commonwealth to help charter schools obtain facilities.

5. Work with federal, state, local, nonprofit, and private partners to strengthen the Commonwealth's defense sector.

ACTION

Work with Military Asset and Security Task Force to develop operational efficiency improvement plans and master plans for the installations.

Increase small business access to defense contracts.

Work with DTI and Hanscom AFB to institute pilot programs on rapid acquisitions and other Transition Agreements.

MEASUREMENT

- Task Force Subcommitees Created and Workplans Developed:
- # Plans Developed or Studies Completed for Bases:
- Prime and Sub Contractor Events

TREND

- Continue to monitor & advocate for Governor's $177M Capital Bond Bill for Military installations and implement if passed
- Continue to support Governor's Task Force
- Develop cyber opportunity at Hanscom
- Implementation of recommendations from SWOT analyses

RESULTS

Massachusetts Military Installation Economic Impact Study—At a Glance

Direct & Induced Employment—46,553 Total Economic Output—$14 Billion (Final release August 2012)

Barnes AFB	Fort Devens	Hanscom AFB	Westover AFB	Natick Soldier Systems Center	Joint Base Cape Cod
Direct & Induced Employment—1,721	Direct & Induced Employment—3,179	Direct & Induced Employment—18,135	Direct & Induced Employment—5,323	Direct & Induced Employment—14,504	Direct & Induced Employment—3,690
Total Economic Output—$126,314,198	Total Economic Output—$396,647,443	Total Economic Output—$8,441,815,729	Total Economic Output—$393,677,264	Total Economic Output—$4,413,462,556	Total Economic Output—$405,749,213

FY13 Accomplishments—Governor's Task Force & Defense Sector Initiatives

- Established subcommittees & developed workplans
- Recommended Governor Patrick sign Executive Order renaming Joint Base Cape Cod
- Science and Technology Board meetings held at Hanscom & Natick
- SWOT Analyses of Hanscom, Natick & Westover initiated
- Hanscom/JBCC land exchange approved by Dept. of Defense & transfer underway
- Energy Audit consultant selected & ready to initiate at all bases
- Barnes runway project approved by Dept. of Transportation, Fed. Aviation Admin. & Nat'l Guard
- Hanscom workforce training certificate program developed
- Capital Bond Bill filed

6. Support the Commonwealth's manufacturing sector

ACTION

Participate in the Commonwealth's Advanced Manufacturing Collaborative (AMC).

Provide financing programs for manufacturers through tax-exempt bonds, General Fund & Emerging Technology Fund.

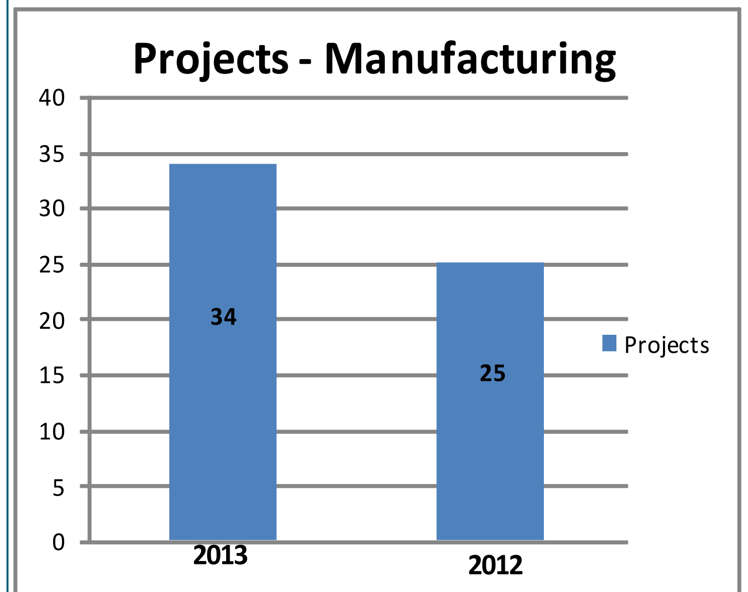
MEASUREMENT

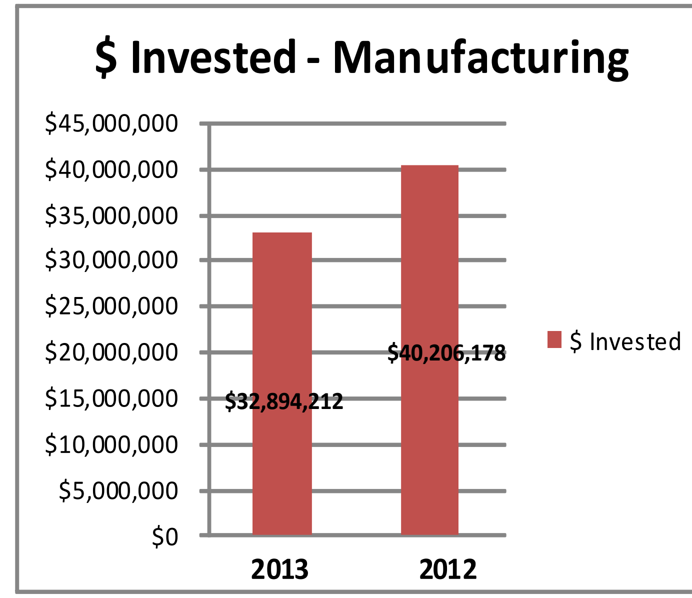
- **# of Manufacturing Projects financed and $ invested**
- **Financial Support for Manufacturing Initiatives**
- **Participate in AMC**

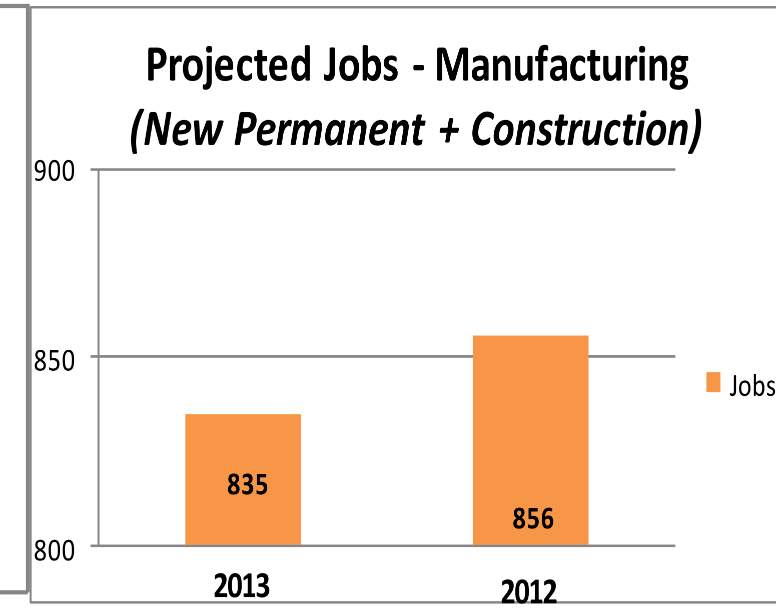
TREND

- 2.5% less total jobs created (FY13 to FY 12
- 19% less total investment (FY13 to FY12)
- 27% more total projects funded (FY13 to FY12, includes 7 AMPitup! grants)
- Roll out of new loan guarantee product and master solicitation for Advanced Manufacturing Futures Fund program

RESULTS







*Job creation measures 3 year projection of new permanent jobs by borrower and application of the IMPLAN

FY 2013 Program Highlights

Grants : 10

$ Invested: $92,736

FY14 Budget Authorization

Advanced Manufacturing Futures Fund

$18,750,000 (Agency receives $9,325,000 in FY14, remainder contingent on gaming revenue)

At a glance . . .

- AMPitup! grantees held 20 events in FY2013, including company tours, teacher professional development and presentations on the program to business leaders
- Lowered fees and provided restructured finance programs options to better meet capital needs of manufacturers
- Agency advanced funding ($1M) to Adv. Manf Futures Fund to support programs prior to fund authorization by Legislature and hired dedicated staff to support manufacturing
- Commissioned and released "Innovation in Manufacturing: Makerspaces" an inventory of makerspaces in the Commonwealth
- Modified bond process (official action/delegated authority) to ease access to capital for manufacturers

7. Support innovation and entrepreneurship

ACTION

Increase and measure funding for early-stage entrepreneurs & small business.

Increase production of rental housing in high-market demand areas near centers of innovation & entrepreneurial activity.

Support growth of small- & mid-sized businesses.

Facilitate adoption of local innovations into small and mid-size businesses and manufacturers.

MEASUREMENT

- # interns at MassDevelopment
- # informational e-mails to MassDevelopment borrowers on internships
- # new rental units financed
- # loans—expansion of businesses in innovation

RESULTS

2013 Internship Program

7 Interns—Policy & Program, Real Estate, Communications, Marketing, Human Resources, Recreation, Finance Programs

Agency did not reach out to borrowers regarding internships in FY13

2013—Loans to Support Innovation

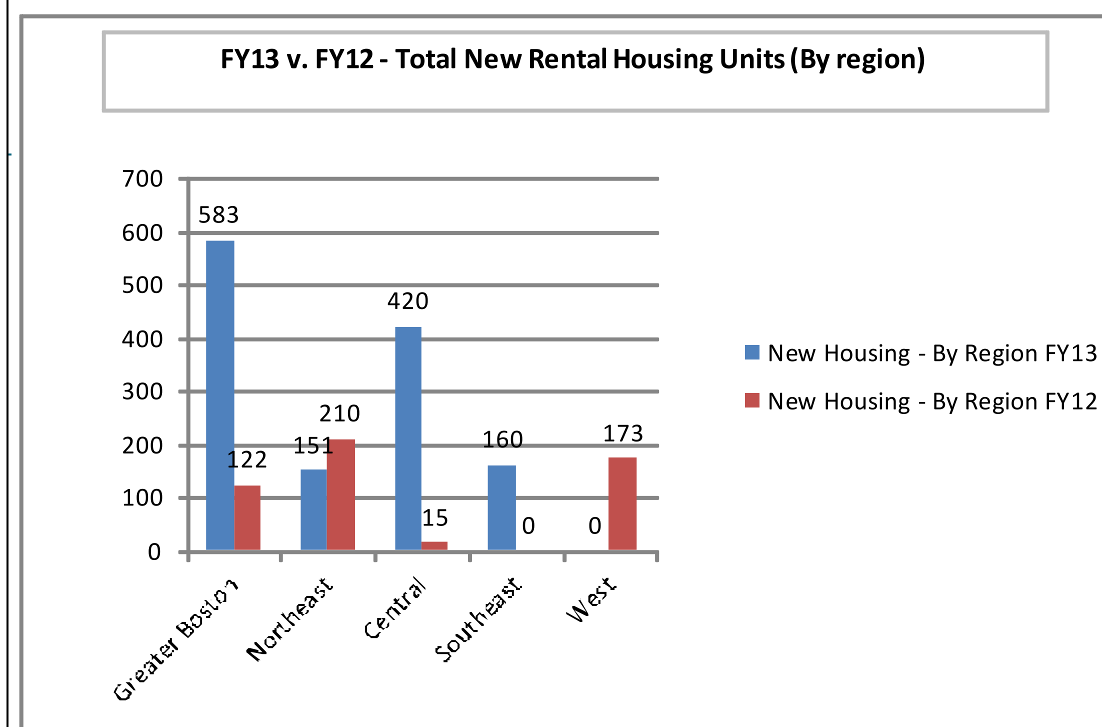
ETF	•$11,500,000 •5 loans •231 jobs
Other Restricted Fund (Export Guarantees)	•$2,107,500 •6 loans •26 jobs
General Fund	•$3,657,500 •9 loans •62 jobs
Total	**•$17,265,000 •20 loans •319 jobs**

TREND

- 39% increase in total housing production from FY 12 (900) to FY13 (1,480), including new market rate loan product and bonds
- Nearly doubled the # of internships offered at MassDevelopment

Note: All units shown are funded by finance programs funded and are rentals.

Housing Units Financed—FY13 v. FY12



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8. Support regional development through infrastructure investments and local empowerment

ACTION

Identify priority development sites for job and housing growth through regional planning efforts

Provide targeted assistance to accelerating development within priority areas

Encourage cities and towns to participate in structured process for implementing local economic development strategies

Run economic development academies throughout the Commonwealth

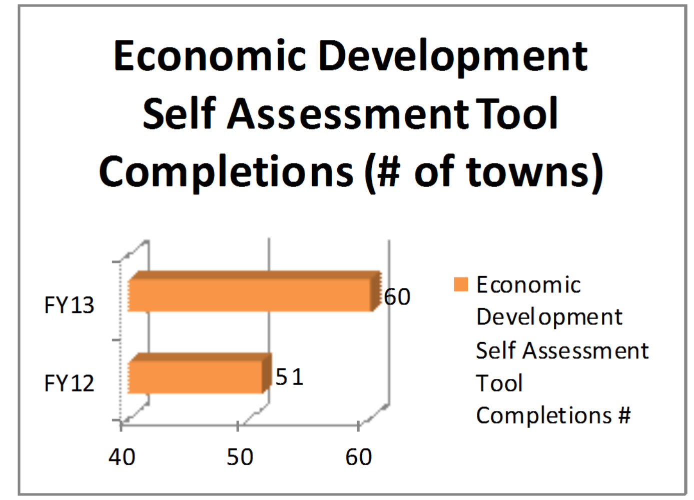
Provide technical assistance to cities & towns.

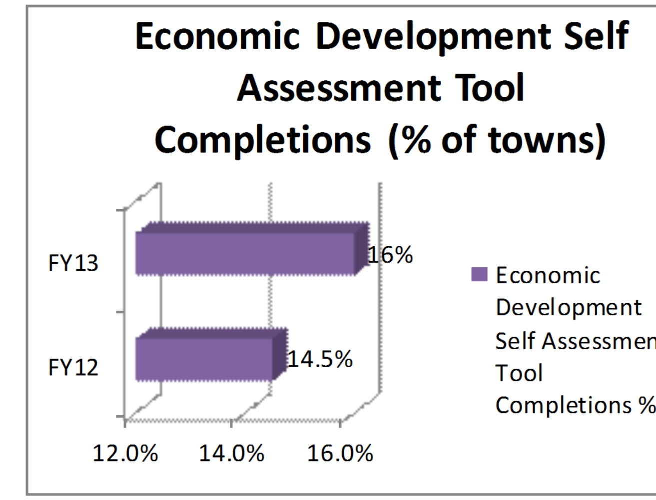
Develop or redevelop critical surplus public properties.

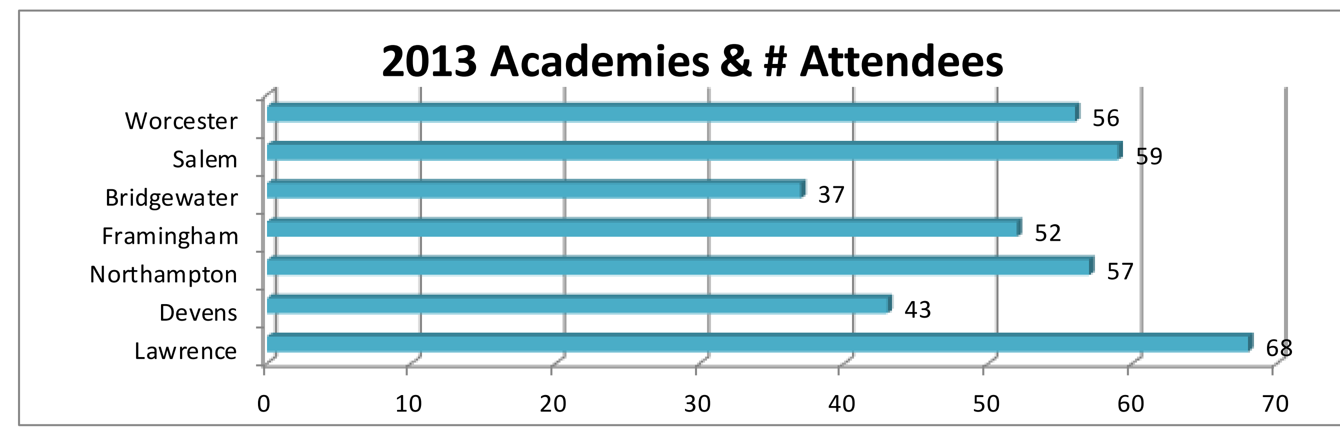
MEASUREMENT

- # 43(d) projects assisted
- # Cities and towns completing structured self assessment process; % of cities and towns in Commonwealth completing assessments
- # academies; # in each region
- # TAPs in partnership with ULI-Boston; # municipal technical assistance projects
- # projects and acres developed in surplus public properties (Devens, Taunton, Northampton, Springfield & Belchertown)

RESULTS







Urban Land Institute Boston

Technical Assistance Panels 2013

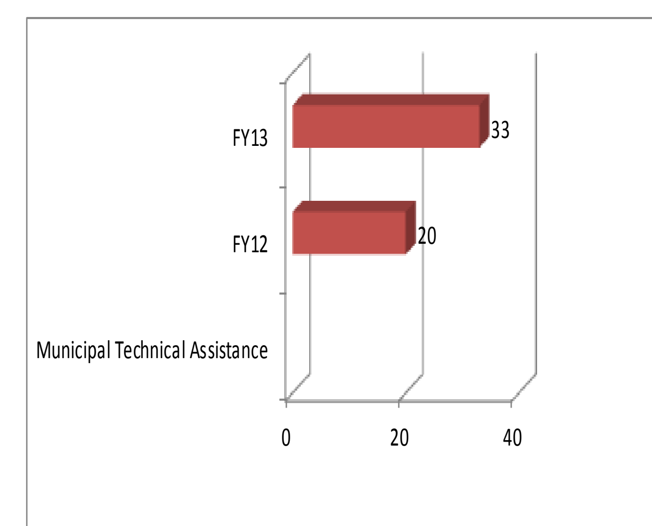
Chicopee—West End revitalization

Lawrence—North Canal district commercial lease up

Barnstable - Downtown Hyannis parking

Framingham— Howard Street revitalization

FY13 v. FY 12—Municipal Technical Assistance



TREND

- 39% increase in # of Municipal Technical Assistance projects
- Increased communities participating in Economic Dev. Self Assessment Tool process by 2.5%
- Planning underway on strategies to leverage TAPs for additional opportunities for Transformational Redevelopment initiatives

9. Increase the ease of doing business in the Commonwealth

ACTION	MEASUREMENT
Work with MMP and MassEcon to expand ambassadors program.	# of ambassadors and the annual increase in the number of ambassadors.
Showcase development-ready sites with information on business and housing costs.	# of regional academies promoting streamlined permitting
Encourage & promote streamlined permitting in Devens and other cities and towns.	# communities assisted with permitting process issues
Keep MDFA web site fresh & user friendly.	# visits to MDFA websites

TREND

- Agency will continue to offer regional academies that are designed to meet needs of regional economic development leaders
- New Director of Real Estate Services will implement new business plan to increase effectiveness and use of services provided by agency to municipalities
- MassDevelopment will continue to promote streamlined permit processes and ease of doing business at its owned projects

RESULTS

MassDevelopment and MassEcon continue to collaborate, but the two agencies did not expand the ambassadors program in FY13

Showcasing Development Sites

MassDevelopment hosted 1 developer tour in fiscal 2013 and plans to roll out others in fiscal 14

Merrimack Valley Housing Developer Tour (pictured at right)

Academies in 2013 focused on regional needs and did not specifically promote streamlined permitting

Communities Assisted with 43D Permitting: 5

Website	FY13 Visits
Massdevelopment.com	97,581
Devenscommunity.com	25,424
VillageHillNorthampton.com	8,660
AMPitupMA.com	5,677

	Twitter Followers (as of 9/3)
MassDevelopment	4,555
AMP it up!	145

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10. Address Massachusetts Cost Competitiveness

ACTION

Fund use of e-health technologies through Tech Dollars program

Use a portion of HEFA charitable trust funds to make community health centers more efficient.

Create more housing of varied types.

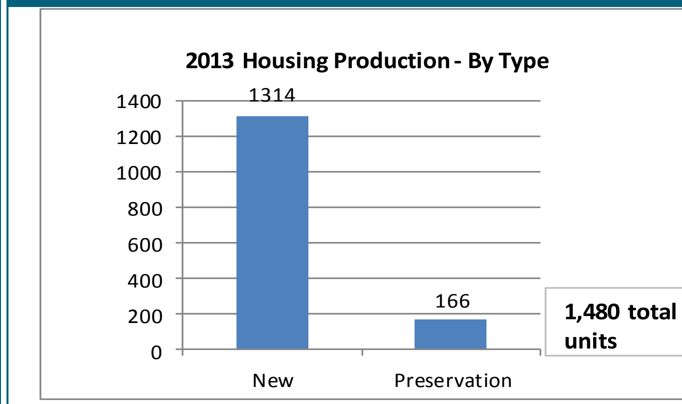
Encourage the business use of Commercial net metering at Devens

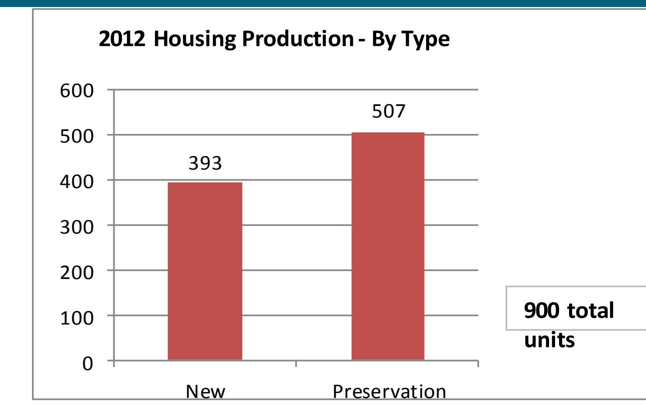
Increase renewables as part of Devens Electric utility mix

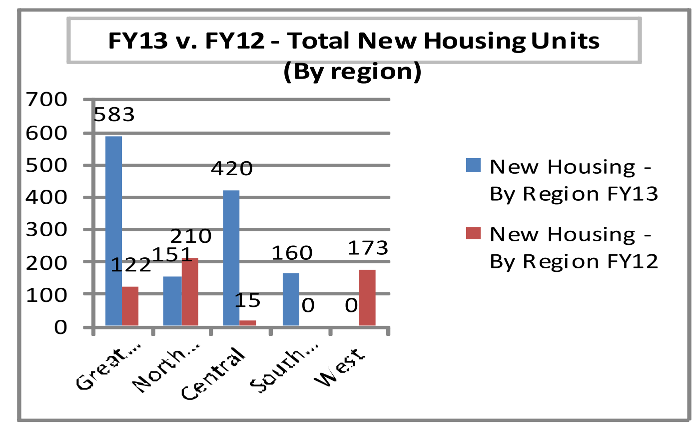
MEASUREMENT

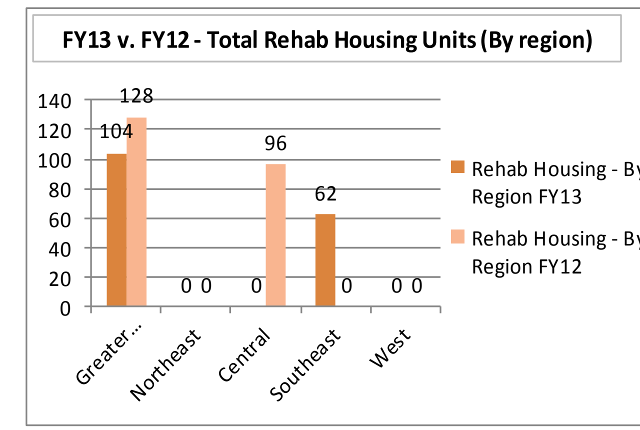
- # Tech Dollars loans (for e-health)
- $ granted for community health center efficiency improvements
- # housing units financed or developed by MassDevelopment (including Devens, Northampton and Taunton)
- # Devens businesses with on-site energy generation
- % increase in renewables in Devens Electric utility mix

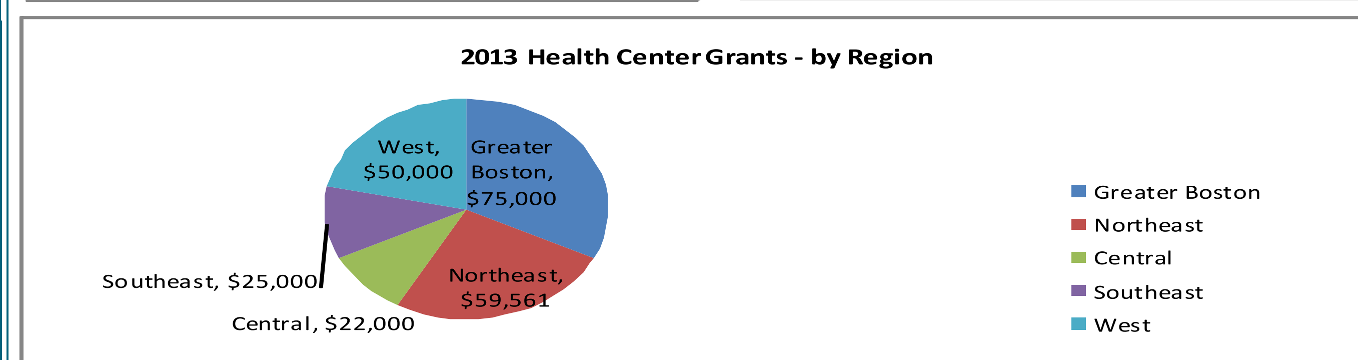
RESULTS











TREND

- 39% increase in total housing production from FY 12 to FY13
- 21% increase in total housing production in highest housing cost MassDevelopment region (Greater Boston, 23% of all new units in FY12, 44% in FY13)
- Commercial Renewable Buy Back Policy in place to allow businesses to install panels and sell excess power to the Devens grid

Green & TechDollars Loans—2013

1 $250,000 TechDollars Loan (Brockton Area Multi Services) for adoption of e-health technology

2 Green Loans (Assumption College & Community Music School of Springfield) for $622,500

Devens Renewable Energy

- +3% Utility Mix from renewables (FY13 v FY12)
- NetZero homes fully sold
- 1st rebate check presented to Devens homeowner
- No Businesses w/ On Site Energy Generation

Massachusetts Development Finance Agency
(Component Unit of the Commonwealth of Massachusetts)

Financial Statements
June 30, 2013 and 2012

McGladrey

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Massachusetts Development Finance Agency
Boston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Massachusetts Development Finance Agency (the "Agency"), a component unit of the Commonwealth of Massachusetts, which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

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; 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 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency, a component unit of the Commonwealth of Massachusetts, as of June 30, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 19 to the financial statements, the Agency adopted the recognition and disclosure requirements of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, during the year ended June 30, 2013. Net position as of July 1, 2011 has been restated. Our opinion is not modified with respect to these matters.

Other Matters

The financial statements of the Agency, as of and for the year ended June 30, 2012, before they were restated for the matter discussed in Note 19 to the financial statements, were audited by other auditors whose report dated November 20, 2012 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 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 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The *accompanying supplemental information,* the Statements of Departmental Net Position and Statements of Departmental Revenues, Expenses and Changes in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013 on our consideration of the Agency'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 Agency's internal control over financial reporting and compliance.

McGladrey LLP

Boston, Massachusetts
November 15, 2013

Massachusetts Development Finance Agency
(Component Unit of the Commonwealth of Massachusetts)
Management's Discussion and Analysis
June 30, 2013
(unaudited)

As management of the Massachusetts Development Finance Agency (the "Agency"), we offer the readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal years ended June 30, 2013 and 2012. This discussion and analysis should be read in conjunction with the accompanying financial statements. Unless otherwise indicated, years in this discussion refer to the fiscal year ended June 30.

The Agency was created on September 30, 1998 pursuant to Chapter 23G of Massachusetts General Laws (Chapter 289 of the Acts of 1998). The Agency is a body corporate and politic and a public instrumentality and was created from the statutory merger of, and is the legal successor in all respects to, two previous existing instrumentalities, the Massachusetts Government Land Bank (created in 1975 under Chapter 212 of the Acts of 1975) and the Massachusetts Industrial Finance Agency (created in 1978 pursuant to Chapter 23A of the Massachusetts General Laws). Other powers of the Agency are also set forth in Massachusetts General Laws Chapter 40D (with respect to the issuance of tax-exempt bonds) and Chapter 498 of the Acts of 1993, as amended (with respect to the redevelopment of the former Fort Devens, a former federal military base).

The purpose of the Agency is to stimulate economic growth, increase employment, eradicate blight, promote prosperity and help build communities throughout the Commonwealth of Massachusetts (the "Commonwealth"). It does this through its powers to:

- Issue tax-exempt bonds for the benefit of certain industrial and commercial entities, educational, health care and housing facilities and public bodies;
- Make loans and provide credit to eligible borrowers in accordance with its public purpose;
- Aid public and private enterprises in the redevelopment of surplus federal and state property and other blighted, open, underdeveloped property;
- Administer specific statutory funds directed at certain economic development needs in the Commonwealth, such as the Massachusetts Export Finance Fund, the Emerging Technology Fund, the Cultural Facilities Fund, the Mortgage Insurance Fund and the Brownfields Redevelopment Fund, and;
- Issue debt, as needed, for the redevelopment of the former Fort Devens ("Devens").

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

Using the Financial Statements

The Massachusetts Development Finance Agency's annual report includes three basic financial statements: the statements of net position, the statements of revenues, expenses and changes in net position and the statements of cash flows. The basic financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America ("GAAP") as promulgated by the Governmental Accounting Standards Board ("GASB"). The Agency's financial statements are reported as a special purpose business type entity.

The statements of net position reports assets plus deferred outflows of resources, liabilities plus deferred inflows of resources and the difference between them as net position. Net position represents the residual interest in the Agency's assets, plus deferred outflows of resources after liabilities, less deferred inflows of resources and consist of three sections net investment in capital assets; restricted and unrestricted. 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. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. The Agency's restricted net position is expendable. All other net position is unrestricted.

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

The Agency restated its fiscal year 2012 beginning net position by a reduction of $9,359,297. As a result of implementing the provisions of GASB 65 *Items Previously Reported as Assets and Liabilities,* deferred financing costs of $7,355,141 and deferred expenses of $2,004,156 were retroactively fully amortized.

Financial Highlights

Statements of Net Position

	June 30, 2013	June 30, 2012 (As restated)
Assets		
Current assets	$ 150,752,322	$ 179,646,347
Noncurrent assets	199,783,085	190,715,467
Assets held for sale	6,815,938	709,597
Capital assets (net of accumulated depreciation)	232,410,562	241,157,750
Total assets	589,761,907	612,229,161
Deferred Outflows of Resources	15,943,560	21,643,394
Liabilities		
Current liabilities	15,467,108	14,932,496
Noncurrent liabilities	196,571,552	210,076,998
Total liabilities	212,038,660	225,009,494
Net Position		
Net investment in capital assets	74,791,780	70,372,295
Restricted	142,728,567	159,876,502
Unrestricted	176,146,460	178,614,264
Total net position	393,666,807	408,863,061
Total liabilities and net position	$ 605,705,467	$ 633,872,555

Assets

The Agency's current assets mainly consist of cash and cash equivalents, short-term investments, current portion of loans receivable, interest receivable and accounts receivable and other assets. The Agency's noncurrent assets mainly consist of long-term cash and cash equivalents and investments, investment in joint ventures, and net loans receivable. Current assets decreased $28.9 million from 2012 to 2013 mainly due to a shift in short-term investments to long-term investments during the fiscal year. Noncurrent assets increased $9.1 million from 2012 to 2013 mainly due to the shift in investments from short-term to long-term, offset by a decrease in investment in joint ventures due an impairment loss taken on the Hospital Hill LLC investment.

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

The decrease of $16.8 million in cash, cash equivalents and investments from 2012 to 2013 is mainly related to a decrease in total investments due to loan disbursements, grant disbursements and ongoing operations. There was a shift within investments from short term to long term during the fiscal year.

The Agency is also the administrator of the STAR Fund. The STAR Fund is a fiduciary investment fund that is managed like a money market fund that invests in short-term, high-quality securities and is available for the investment of bond proceeds of the Agency's client institutions. PFM Asset Management is the STAR Fund's investment advisor. The STAR Fund is designed to preserve principal, provide daily liquidity, and earn a high level of income. The Agency's holdings in the Star Fund on the statements of net position as of June 30, 2013 and 2012, were approximately $2.4 million and $6.4 million, respectively.

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

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

As of June 30, 2013 and 2012, there were $95.7 million and $93.6 million, respectively, of net loans receivable.

Net loans receivable increased $2.1 million from 2012 to 2013. The increase is mainly due to more loan disbursements as compared to loan repayments during the fiscal year. There were approximately $20.0 million of loan disbursements and $17.2 million of loan repayments during the fiscal year. This increase is offset by an increase in the loan loss reserve of approximately $0.7 million.

Investment in joint ventures includes the Agency's equity investments in Hospital Hill, LLC, the Commonwealth Fund III LLC, and seventeen New Markets Tax Credit ("NMTC") entities as of June 30, 2013. The decrease of $6.1 million from 2012 to 2013 is mainly related to activity for the Hospital Hill LLC investment including $1.5 million of additional contributions by the Agency, offset by a $7.0 million impairment loss on the investment, $666,000 in distributions to the Agency and $345,000 share of loss during the fiscal year.

Accounts receivable and other assets include outstanding amounts at June 30, 2013 related to utility usage at Devens, grants, NMTC company management fees and reimbursement of expenses, Devens operating fees, real estate consulting services, lease receivables, prepaid insurance and other miscellaneous receivables. The $1.4 million increase in accounts receivable and other assets is mainly related to the increase in grants receivable for infrastructure improvements related to the Devens Regional Dispatch Center and Taunton Development MassDevelopment Corporation ("Taunton Corp.").

As a result of implementing the provisions of GASB 65 *Items Previously Reported as Assets and Liabilities,* deferred financing costs which represented bond financing expenses associated with the Electric System Utility bonds and the M/SBRC Redevelopment Revenue bonds of $7,355,141 and deferred expenses related to tenant related expenses for broker commissions and legal and accounting fees of $2,004,156 were retroactively fully amortized. The Agency restated its fiscal year 2012 beginning net position by a reduction of $9,359,297.

Assets held for sale relates to the Taunton Corp. capital assets. In January 2012, the Agency, in partnership with Taunton Development Corporation ("TDC"), purchased from the Commonwealth of Massachusetts the former Dever State School core campus in Taunton, MA. The property consists of approximately 220 acres with approximately 40 dilapidated buildings and underground tunnels. A new non-profit corporation was formed to take title and redevelop the property. Redevelopment of the property includes expansion of the existing 150 acres of the Myles Standish Industrial Park and development of a life science park including a training/education center. The increase of $6.1 million is related to the redevelopment work done during fiscal year 2013.

Capital assets relate to the infrastructure and equipment assets for Devens, 100 Cambridge Street, Fall River and Springfield properties. The decrease of $8.7 million from 2012 to 2013 is mainly related to $12.1 million of depreciation expense during the fiscal year offset by an increase of $3.6 million in capital assets mainly related to Devens infrastructure improvements. See Note 9 to the financial statements for more information on capital assets.

Deferred Outflows of Resources

In accordance with GASB 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"), the $15.9 million and $21.6 million deferred outflows of resources represent the deferral of possible future payments related to the unrealized negative market value of the MassDevelopment/Saltonstall Building Redevelopment Corporation ("M/SBRC") swap with Lehman Brothers Special Financing, Inc. as of June 30, 2013 and 2012, respectively.

Liabilities

The Agency's current liabilities consist of accounts payable and accrued expenses, current portion of bonds payable, current advances from the Commonwealth of Massachusetts, accrued interest payable and project escrow payables. Noncurrent liabilities consist of bonds payable, loans payable, advances from the Commonwealth of Massachusetts, M/SBRC interest rate swap, and other liabilities.

The increase of $535,000 in current liabilities from 2012 to 2013 is mainly related to an increase in accounts payable and accrued expenses due to increased accruals for a Devens real estate tax overlay account and increased accruals for construction activity related to Taunton Corp., offset by a decrease in the current portion of bonds payable. The decrease of $13.5 million in noncurrent liabilities from 2012 to 2013 is mainly related to a decrease in bonds payable due to principal payments during the fiscal year, a decrease in the unrealized negative market value of the M/SBRC interest rate swap, and a decrease in advances from the Commonwealth of Massachusetts. The Agency was originally given a $3.8 million one-time grant for Devens municipal services. Management has had conversations with the Commonwealth regarding this liability and the Commonwealth has verbally confirmed that the funds are not due to the Commonwealth, therefore, the $3.8 million was re-classified as contributions from the Commonwealth of Massachusetts in the statement of revenues, expenses and changes in net position as of June 30, 2013.

Bonds and Loans Payable

The following itemizes the bonds and loans payable on the books of the Agency at the end of June 30:

	2013	2012
M/SBRC Redevelopment Revenue bonds	$ 162,910,000	$ 165,810,000
Devens Electric System Utility bonds	7,805,000	8,145,000
Taunton loan-Taunton Development Corporation	25,000	-
Net premium	13,284	14,476
Net discount	(1,452,417)	(1,561,477)
	$ 169,300,867	$ 172,407,999

Bonds payable decreased $3.1 million from 2012 to 2013 mainly due to principal payments of $2.9 million on the M/SBRC Redevelopment Revenue bonds and $340,000 on the Devens Electric System Utility bonds.

In an effort to lower the weighted average interest rate on the bonds, the Agency refunded the Devens Electric System Revenue Bonds, Series 2001 ("Series 2001 Bonds) in December 2011 and issued the Devens Electric System Refunding Revenue Bonds, Series 2011 ("Series 2011 Bonds"). Principal of $8,775,000 was repaid in relation to the Series 2001 Bonds and new principal of $8,145,000 was refunded. The Agency did not issue any new debt in fiscal year 2013.

M/SBRC Redevelopment Revenue Bonds

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

The mortgage and trust agreement required the establishment of specific reserve funds including the Replacement Reserve Fund, Project Reserve Fund and Debt Service Reserve Fund. As of June 30, 2013, the balances in these funds were $1.0 million, $9.0 million and $13.3 million, respectively. As of June 30, 2012, the balances in these funds were $0.8 million, $7.4 million and $13.3 million, respectively.

The M/SBRC Redevelopment Revenue Bonds agreement provides for, among other requirements, the maintenance of a minimum senior debt service coverage ratio and certain other covenants. As of June 30, 2013 and 2012, the necessary debt service coverage ratio was met.

Devens Electric System Utility Bond

During fiscal year 2001, the Agency issued Series 2001 Bonds for the Devens project which totaled $10.6 Million. The Agency acquired the electric transmission and distribution facilities (the "Electric System") serving Devens from the Army in 1996. The Electric System includes four transmission substations that interconnect Devens with the regional transmission system serving New England, as well as electric distribution facilities serving the area within Devens. The Series 2001 Bonds were used to finance the design, construction, installation and associated costs of certain capital improvements to the Electric System at Devens.

In an effort to lower the weighted average interest rate on the bonds, the Agency refunded the bonds in December 2011 and issued the Series 2011 Bonds. Principal of $8,775,000 was repaid in relation to the Series 2001 Bonds and new principal of $8,145,000 was issued.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default as long as the Agency complies with specific requirements included in the agreement. As of June 30, 2013 and 2012, the necessary debt service coverage was met.

See Note 11 to the financial statements for more information on bonds payable.

Advances from the Commonwealth of Massachusetts

Advances from the Commonwealth of Massachusetts consist of the following at the end of June 30:

	2013	2012
Massachusetts Water Abatement Trust Loan	$ 10,922,956	$11,360,614
Commonwealth Advance for Devens Municipal Services	-	3,750,000
	$ 10,922,956	$ 15,110,614

Massachusetts Water Abatement Trust Loan

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

The Massachusetts Water Abatement Trust Loan agreement requires the maintenance of an adequate annual debt service coverage ratio. As of June 30, 2013, the necessary debt service coverage was met. As of June 30, 2012, the necessary debt service coverage was not met, however failure to comply with the annual debt service coverage ratio does not constitute a default, as long as the Agency complies with specific requirements included in the agreement. In September 2012, the Agency funded the shortfall necessary to bring the ratio into compliance.

Commonwealth Advance for Devens Municipal Services

In 1997, the Agency received a one-time grant from the Commonwealth of $3.8 million for administration and provision of municipal services at Devens. Management has had conversations with the Commonwealth regarding this liability and the Commonwealth has verbally confirmed that the funds are not due to the Commonwealth, therefore, the $3.8 million was re-classified as contributions from the Commonwealth of Massachusetts in the statement of revenues, expenses and changes in net position as of June 30, 2013.

See Note 13 to the financial statements for more information on advances from the Commonwealth of Massachusetts.

Net Position

Net position represents the residual interest in the Agency's assets plus deferred outflows of resources after all liabilities plus deferred inflows of resources are deducted. The Agency's net position was as follows at June 30:

	2013	2012 (As restated)
Net investment in capital assets	$ 74,791,780	$ 70,372,295
Restricted net assets	142,728,567	159,876,502
Unrestricted net assets	176,146,460	178,614,264
	$ 393,666,807	$408,863,061

The decrease in net position of approximately $15.0 million from 2012 to 2013 was a combination of a $7.3 million operating loss mainly due to an impairment loss on joint ventures, $9.7 million of interest expense, $6.1 million of Cultural Facilities grant awards, $5.4 million of Predevelopment and Brownfield grant awards, and a $3.0 million grant award to the Massachusetts Cultural Council, offset by $9.7 million in contributions from the Commonwealth and $6.1 million in capital grant revenue.

Revenues and Expenses

	2013	2012 (As restated)
Operating revenues	$ 74,280,171	$ 76,948,741
Operating expenses	(81,561,636)	(77,646,623)
Operating loss	(7,281,465)	(697,882)
Nonoperating expenses, net	(7,880,387)	(7,838,222)
Capital contributions, net	(34,402)	(10,197,078)
Decrease in net position	$ (15,196,254)	$ (18,733,182)

Operating Revenues

	2013	2012
Devens operating fees	$ 30,906,793	$ 31,963,872
Interest on loans	5,556,250	4,934,927
Bond issuance and New Markets Tax Credit fees	9,375,532	9,013,972
Other operating income	5,433,264	6,090,925
Gains on sale of real estate, net	297,939	2,697,961
M/SBRC rent and other income	22,710,393	22,247,084
	$ 74,280,171	$ 76,948,741

Operating revenues decreased approximately $2.7 million from 2012 to 2013. The decrease is mainly related to a decrease of $1.1 million in Devens operating fees and a $2.4 million decrease in gains on sale of real estate, net.

Devens operating fees, which include utility income and real estate taxes, are an important component of the Agency's operating revenue. The Agency owns the utility systems at Devens and provides electricity, natural gas, water and sewer services to the Devens community. The utility staff works in conjunction with operations and maintenance contractors to maintain, upgrade and expand the utility systems. The current systems consist of five electrical substations, approximately 73 miles of distribution power lines, three miles of transmission power lines, four wells and pumping stations, approximately 50 miles of water line, 32 miles of natural gas pipeline, a wastewater treatment facility, six sewer lift stations and 50 miles of sewer. Devens operating fees decreased $1.1 million from 2012 to 2013 primarily due to lower electric income due to lower energy costs that are passed through to the customers of the system.

Bond issuance fees and NMTC fees represent revenue generated by the Agency as a conduit issuer of taxable and tax-exempt bonds or fees related to the allocation of federal New Markets Tax Credits. Fees increased approximately $361,000 from 2012 to 2013 due to a combination of increased bond issuance fees earned offset by decreased NMTC fees collected due to fewer closings within the NMTC program during fiscal year 2013.

Other operating income mainly consists of real estate advisory service fees and lease income for leased property at Fall River and Springfield and other miscellaneous operating revenues. The decrease of approximately $658,000 from 2012 to 2013 is principally related to a decrease in miscellaneous revenues due to a payment received from an Evergreen legal settlement in fiscal year 2012, offset by reimbursements from the Regional Dispatch Center for expenses paid by the Agency on its behalf.

The gains on sale of real estate, net of approximately $297,000 in fiscal year 2013 mainly relate to a lot sale at the Taunton property and three lot sales at Devens, MA during the fiscal year. There was an additional lot sale at Devens, MA during the fiscal year and a gain of approximately $288,000 was deferred due to a repurchase clause in the purchase and sale agreement. The gain on the sale will be recognized once the conditions in the repurchase clause are satisfied.

The gains on sale of real estate, net of $2.7 million in fiscal year 2012 relates to the sales of seven lots at Devens, MA during the fiscal year. There was an additional lot sale at Devens, MA during the fiscal year and a gain of approximately $469,000 was deferred due to a repurchase clause in the purchase and sale agreement. This gain on sale is still being deferred as of June 30, 2013 as the sale will be recognized once the conditions in the repurchase clause are satisfied.

M/SBRC rent and other income increased approximately $463,000 from 2012 to 2013. During fiscal years 2013 and 2012, the 100 Cambridge Street Project earned $22.7 million and $22.2 million, respectively, from the leased office tower occupancy, retail revenue, and allocated parking spaces. The increase of approximately $463,000 from 2012 to 2013 is mainly due to increased real estate tax reimbursements, private retail rents and garage income.

Operating Expenses

	2013	2012 (As restated)
Salaries and related employee expenses	$ 16,302,566	$ 16,122,653
Property, maintenance and utilities	31,822,676	33,102,516
General and administrative	5,060,358	2,635,820
Professional and legal fees	6,851,990	6,079,733
Provision for loan loss	720,255	2,837,544
Provision for Predevelopment and Brownfield receivables	1,337,426	126,623
Write-off of Predevelopment and Brownfield receivables	24,500	73,414
Depreciation and amortization	12,063,562	12,057,597
Impairment loss on joint ventures	7,000,000	4,506,449
Loss on share of joint ventures	378,303	104,274
	$ 81,561,636	$ 77,646,623

Operating expenses increased approximately $3.9 million from 2012 to 2013. The increase is due mainly to a combination of increases in impairment loss on joint ventures, general and administrative expenses and provision for Predevelopment and Brownfield receivables, offset by decreases in provision for loan loss and property, maintenance and utilities expenses.

Property, maintenance and utilities decreased approximately $1.3 million from 2012 to 2013 primarily as a result of decreased electric utility purchases due to a decrease in energy costs during the fiscal year.

General and administrative expenses increased approximately $2.4 million from 2012 to 2013 mainly due to the reversal of a bad debt of approximately $1.5 million in fiscal year 2012 that was fully reserved in fiscal year 2011. The related real estate tax amount was collected during fiscal year 2012 as part of a settlement agreement (refer to Note 19 - Legal Matters).

Provision for loan loss represents the expense necessary to maintain an adequate allowance for loan losses. The provision decreased approximately $2.1 million from 2012 to 2013 mainly related to a decreased provision for the Emerging Technology Fund for fiscal year 2013 as compared to fiscal year 2012 due to fewer loan disbursements and loan write-offs during fiscal year 2013.

The provision for Predevelopment and Brownfield receivables represents the allowance necessary to absorb probable losses of existing awards that are expected to become uncollectible. The provision increased approximately $1.2 million from 2012 to 2013 due to increased advances related to the Brownfield Fund receivables during the fiscal year.

Impairment loss on joint ventures mainly represents a $7.0 million and $4.0 million impairment loss recognized on the Agency's investment in Hospital Hill LLC in fiscal year 2013 and 2012, respectively. Projections related to the investment as of June 30, 2013 and 2012 show that it is not probable that the current investment balance will be recoverable from distributions from future sales due to the decline in the market and additional capital required to improve the marketability of the property. Therefore, the Agency recognized a $7.0 million and $4.0 million impairment loss in fiscal years 2013 and 2012, respectively, to write the investment down to the amount expected to be recovered through its net cash flow from the project.

Non-operating (Expenses) Revenues

	2013	2012 (As restated)
Investment income	$ 1,392,791	$ 2,159,582
Contract assistance	444,172	456,711
Interest expense	(9,716,062)	(9,990,479)
Amortization of bond discount, net	(109,059)	(170,475)
Financing costs	(150)	(293,561)
Other income	107,921	-
	$ (7,880,387)	$ (7,838,222)

Non-operating (expenses) revenues consists mainly of investment income, contract assistance, interest expense, amortization of bond discount, net and financing costs. The total non-operating (expenses) revenues remained fairly consistent from 2012 to 2013.

Investment income decreased approximately $767,000 from 2012 to 2013 mainly due to decreased earnings on investments due to decreased average investment balances and decreased annualized yields during fiscal year 2013 and a reduction of the reserve held on an investment that is currently in the liquidation process. The reserve was reduced again during the fiscal year because the Agency continues to receive cash disbursements from the investment.

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

Interest expense of $9.7 million and $10.0 million was recognized in 2013 and 2012, respectively. The decrease of approximately $274,000 is mainly related to the decrease in interest expense related to the Electric System utility bonds due to the refinancing of the bonds in fiscal year 2012. Interest expense includes interest for the 1) M/SBRC Redevelopment Revenue bonds issued to fund construction expenses for the 100 Cambridge Street Project, 2) Electric System Utility bonds issued for the acquisition of the electric transmission and distribution facility at Devens, and 3) Massachusetts Water Abatement Trust for the wastewater treatment plant at Devens.

Due to the adoption of GASB 65 *Items Previously Reported as Assets and Liabilities* during fiscal year 2013, the Agency restated its fiscal year 2012 beginning net position as deferred financing costs and deferred expenses were retroactively fully amortized to fiscal year 2011. Therefore, financing costs related to the refinanced Electric System utility bonds were fully expensed during fiscal year 2013.

Capital Contributions and Awards

	2013	2012
Contributions from the Commonwealth of Massachusetts	$ 9,725,290	$ 4,197,283
Capital grant revenue	6,073,704	623,182
Predevelopment and Brownfield awards	(5,407,576)	(4,301,163)
Cultural Facilities grant awards	(6,095,797)	(5,917,731)
Advanced Manufacturing grant awards	(83,462)	-
Massachusetts Cultural Council grant award	(3,000,000)	(3,000,000)
Commonwealth of Massachusetts grant awards	(1,000,000)	(1,475,000)
Capital grant awards	(246,561)	(323,649)
	$ (34,402)	$ (10,197,078)

Capital contributions and awards increased approximately $10.2 million from 2012 to 2013 mainly due to increased contributions from the Commonwealth of Massachusetts and capital grant revenue earned during fiscal year 2013.

Contributions from the Commonwealth of Massachusetts of $9.7 million and $4.2 million were recognized in fiscal years 2013 and 2012, respectively. The fiscal year 2013 and 2012 amounts are comprised of $5.0 million and $2.9 million for the Cultural Facilities Fund and $4.5 million and $1.3 million for the Devens Fund for capital infrastructure improvements at Devens, respectively. In June of 1997 the Agency received a one-time grant of approximately $3.8 million for administration and provision of municipal services at Devens. Management has had conversations with the Commonwealth regarding this liability and the Commonwealth has verbally confirmed that the funds are not due to the Commonwealth, therefore, the $3.8 million was re-classified as contributions from the Commonwealth of Massachusetts in the statement of revenues, expenses and changes in net position as of June 30, 2013.

Capital grant revenue of approximately $6.1 million was recognized in fiscal year 2013. This was mainly comprised of $4.3 million of grant reimbursements for the Taunton property development (MassWorks and EDA grants) and $1.2 million for the Devens regional dispatch center development. Capital grant revenue of approximately $623,000 was recognized in fiscal year 2012 and was mainly comprised of $306,000 of grant reimbursements for the Taunton property development and $159,000 for the Devens regional dispatch center development.

The Agency disbursed $3.0 million to the Massachusetts Cultural Council from the Cultural Facilities Fund in fiscal years 2013 and 2012.

The Commonwealth of Massachusetts grant award of $1.0 million in fiscal year 2013 is related to a award disbursed to the Executive Office of Housing and Economic Development ("EOHED") to assist with operating funds for fiscal year 2013. The Commonwealth of Massachusetts grant awards of $1.5 million relates to $475,000 and $1.0 million disbursed to the Community Service 501(c) 3 Loan Fund and the EOHED, respectively, to help offset budget cuts for fiscal year 2012.

Requests for Additional Information

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Simon Gerlin, CFO, Massachusetts Development Finance Agency, 99 High Street, 11th Floor, Boston, MA. 02110.

Massachusetts Development Finance Agency
(Component Unit of the Commonwealth of Massachusetts)
Statements of Net Position
June 30, 2013 and 2012

		2013		2012 (As restated)
Assets				
Current assets				
Cash and cash equivalents	$	10,557,365	$	9,102,198
Cash and cash equivalents-restricted for use		17,343,692		20,918,859
Investments		91,273,738		121,215,959
Loans receivable, net		14,936,929		13,174,142
Interest receivable		3,356,985		2,899,148
Accounts receivable and other assets (net of allowance of $1,263,140 and $1,072,070 at June 30, 2013 and 2012, respectively)		10,652,340		9,282,742
Interest in life insurance contract		-		307,067
Due from the Commonwealth of Massachusetts		577,327		493,140
Project escrow deposits		1,915,106		2,114,252
Assets held for sale		138,840		138,840
Total current assets		150,752,322		179,646,347
Noncurrent assets				
Cash and cash equivalents for capital use		12,609,158		12,511,126
Cash and cash equivalents-restricted for use		18,917,340		18,074,925
Investments		79,030,028		64,695,874
Investment in joint ventures		7,356,173		13,407,816
Loans receivable (net of allowance of $14,652,092 and $15,615,993 at June 30, 2013 and 2012, respectively)		80,766,972		80,430,146
Predevelopment and Brownfield receivable, net		1,103,414		1,595,580
Assets held for sale		6,815,938		709,597
Capital assets, net		232,410,562		241,157,750
Total noncurrent assets		439,009,585		432,582,814
Total assets		589,761,907		612,229,161
Deferred Outflows of Resources				
Deferred outflow interest rate swap		15,943,560		21,643,394
Liabilities and Net Position				
Current Liabilities				
Accounts payable and accrued expenses		7,737,367		6,439,700
Current portion of bonds payable		2,695,000		3,240,000
Advances from the Commonwealth of Massachusetts		454,756		437,657
Accrued interest payable		2,654,654		2,685,005
Project escrow payable		1,925,331		2,130,134
Total current liabilities		15,467,108		14,932,496
Noncurrent liabilities				
Bonds payable		166,580,867		169,167,999
Loans payable		25,000		-
Advances from the Commonwealth of Massachusetts		10,468,200		14,672,957
Interest rate swap		15,943,560		21,643,394
Other liabilities		3,553,925		4,592,648
Total noncurrent liabilities		196,571,552		210,076,998
Total liabilities		212,038,660		225,009,494
Net position				
Net investment in capital assets		74,791,780		70,372,295
Restricted		142,728,567		159,876,502
Unrestricted		176,146,460		178,614,264
Total net position		393,666,807		408,863,061
Total liabilities and net position	$	605,705,467	$	633,872,555

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

Massachusetts Development Finance Agency
(Component Unit of the Commonwealth of Massachusetts)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Revenues		
Operating revenues		
Devens operating revenue	$ 30,906,793	$ 31,963,872
Interest on loans	5,556,250	4,934,927
Bond issuance and New Markets Tax Credit fees	9,375,532	9,013,972
Other	5,433,264	6,090,925
Gains on sale of real estate, net	297,939	2,697,961
M/SBRC and other revenue	22,710,393	22,247,084
Total operating revenues	74,280,171	76,948,741
Expenses		
Operating expenses		
Salaries and related employee expenses	16,302,566	16,122,653
Property, maintenance and utilities	31,822,676	33,102,516
General and administrative	5,060,358	2,635,820
Professional and legal fees	6,851,990	6,079,733
Provision for loan loss	720,255	2,837,544
Provision for Predevelopment and Brownfield receivables	1,337,426	126,623
Write-off of Predevelopment and Brownfield receivables, net	24,500	73,414
Depreciation and amortization	12,063,562	12,057,597
Impairment loss on joint ventures	7,000,000	4,506,449
Loss on share of joint ventures	378,303	104,274
Total operating expenses	81,561,636	77,646,623
Operating loss	(7,281,465)	(697,882)
Nonoperating (expenses) revenues		
Investment income	1,392,791	2,159,582
Contract assistance	444,172	456,711
Interest expense	(9,716,062)	(9,990,479)
Amortization of bond discount, net	(109,059)	(170,475)
Financing costs	(150)	(293,561)
Other	107,921	-
Nonoperating expenses, net	(7,880,387)	(7,838,222)
Loss before capital contributions and awards	(15,161,852)	(8,536,104)
Contributions from the Commonwealth of Massachusetts	9,725,290	4,197,283
Capital grant revenue	6,073,704	623,182
Predevelopment and Brownfield awards	(5,407,576)	(4,301,163)
Cultural Facilities grant awards	(6,095,797)	(5,917,731)
Advanced Manufacturing grant awards	(83,462)	-
Massachusetts Cultural Council grant award	(3,000,000)	(3,000,000)
Commonwealth of Massachusetts grant awards	(1,000,000)	(1,475,000)
Capital grant awards	(246,561)	(323,649)
Decrease in net position	(15,196,254)	(18,733,182)
Net position		
Net position - beginning of year	408,863,061	427,596,243
Net position - end of year	$ 393,666,807	$ 408,863,061

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

Massachusetts Development Finance Agency
(Component Unit of the Commonwealth of Massachusetts)
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Cash flows from operating activities		
Receipts from interest on loans	$ 5,064,246	$ 4,456,283
Receipts from Devens operating income	32,327,102	31,845,795
Receipts from bond issuance fees	9,752,429	8,705,927
Receipts from other operating income	3,967,774	6,195,406
Receipts from rent and other income	22,315,298	22,235,068
Payment of salaries and related employees expenses	(16,389,903)	(16,152,152)
Payment of rent, maintenance and utilities	(32,018,754)	(33,814,896)
Payment of general and administration expenses	(4,536,556)	(2,989,295)
Payment of professional and legal fees	(6,940,367)	(6,204,941)
Security deposits	(34,250)	13,710
Project escrows, asset	199,146	180,122
Project escrows, liability	(204,803)	(178,562)
Net cash provided by operating activities	13,501,362	14,292,465
Cash flows from noncapital financing activities		
Receipts for other non operating income	92,751	24,554
Net cash provided by noncapital financing activities	92,751	24,554
Cash flows from capital and related financing activities		
Acquisition of capital assets	(8,340,496)	(2,756,519)
Payment of bond issuance costs	(150)	(293,561)
Principal payments on debt obligations	(3,631,595)	(10,162,182)
Principal advances on debt obligations	-	8,145,000
Proceeds from sale of assets	851,669	3,802,550
Receipts from federal capital contributions	4,758,160	349,641
Payment of Predevelopment and Brownfield grant awards	(5,407,576)	(4,461,318)
Payment of Cultural Facilities grant awards	(6,095,797)	(5,917,731)
Payment of Commonwealth of Massachusetts grant awards	(1,000,000)	(1,475,000)
Payment of Advanced Manufacturing grant awards	(83,462)	-
Payment of Massachusetts Cultural Council grant award	(3,000,000)	(3,000,000)
Payment of capital grant	(246,561)	(323,649)
Receipts of contributions from the Commonwealth of Massachusetts	4,576,667	6,296,577
Payment of interest	(9,341,860)	(9,629,259)
Net cash used by capital and related financing activities	(26,961,001)	(19,425,451)
Cash flows from investing activities		
Purchases of investments	(334,200,916)	(248,411,171)
Sales of investments	349,788,506	267,303,069
Receipt of interest from life insurance contract	307,650	-
Investments in joint venture	(2,011,109)	(731,575)
Distributions from joint ventures	666,493	259,360
Disbursements of loans	(19,992,829)	(32,780,018)
Collections and recoveries of loans	17,172,961	17,169,973
Payment of Predevelopment and Brownfield receivables	510,637	368,094
Advance of Predevelopment and Brownfield receivables	(1,659,493)	(655,380)
Receipts of investment income	1,605,435	2,337,177
Net cash provided by investing activities	12,187,335	4,859,529
Net decrease in cash and cash equivalents	(1,179,553)	(248,903)
Cash and cash equivalents at beginning of year	60,607,108	60,856,011
Cash and cash equivalents at end of year	$ 59,427,555	$ 60,607,108
Supplemental disclosure of noncash activity		
Contract assistance	$ 444,172	$ 456,711
Investments in joint ventures	3,093	27,034
Contributions from the Commonwealth	(4,959,396)	2,169,389
Interest expense	398,109	423,157
Unrealized loss on investments	(178,477)	(239,813)
Capital additions included in accounts payable	1,911,264	463,535

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

Massachusetts Development Finance Agency
(Component Unit of the Commonwealth of Massachusetts)
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012 (As restated)
Cash flows from operating activities		
Operating loss	$ (7,281,465)	$ (697,882)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Bad debt	575,147	(1,319,205)
Depreciation and amortization	12,063,562	12,057,597
Gain on disposal of redeveloped property	(297,939)	(2,697,961)
Provision and write-off for loans and Predevelopment and Brownfield receivables, net	2,082,181	3,037,581
Loss on share of joint ventures	378,303	104,274
Impairment loss on joint ventures	7,000,000	4,506,449
Changes in assets and liabilities		
Project escrows - asset	199,146	180,122
Security deposits	(34,250)	13,710
Interest receivable	(492,004)	(478,644)
Accounts receivable and other assets	(314,585)	715,957
Accounts payable and accrued expenses	(79,198)	(890,764)
Project escrows - liability	(204,803)	(178,562)
Deferred revenue	(92,733)	(60,207)
Total adjustments	20,782,827	14,990,347
Net cash provided by operating activities	$ 13,501,362	$ 14,292,465

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

1. Authorizing Legislation

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

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

In accordance with the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*-an amendment of GASB Statement No. 14, the financial statements must present the organization and its component units. The Agency is considered a component unit of the Commonwealth. Additionally, the Agency has the following blended component units:

MassDevelopment/Saltonstall Building Redevelopment Corporation
The Commonwealth enacted special legislation, Chapter 237 of the Act of 2000 of the Commonwealth (the "Project Legislation") which authorized the Agency to design and redevelop the office building located at 100 Cambridge Street in Boston, Massachusetts (the "Project"). This legislation created the MassDevelopment/Saltonstall Building Redevelopment Corporation (the "100 Cambridge Street Project" or "M/SBRC"). Redevelopment of the site included the construction of approximately 34,500 square feet of new retail space and 75 new residential condominium units, 19 of which are affordable housing units by agreement with the City of Boston. The garage was renovated to accommodate approximately 415 vehicles.

The Project also included construction of a public memorial garden and other public amenities on the site. M/SBRC entered into a 50 year ground lease with the Commonwealth, which includes an option to extend for two 15 year periods. Simultaneously, M/SBRC entered into a 50 year office lease with the Commonwealth as lessee, which includes an option to extend the lease for two 15 year periods. The net position of M/SBRC was approximately a deficit of $61.3 million and $51.8 million as of June 30, 2013 and 2012, respectively. Please also refer to Footnote 16 Segment Reporting.

Taunton Development Corporation
In January 2012, the Agency, in partnership with Taunton Development Corporation ("TDC"), purchased from the Commonwealth the former Dever State School core campus in Taunton, MA. The property consists of approximately 220 acres with approximately 40 dilapidated buildings and underground tunnels. A new non-profit corporation called Taunton Development MassDevelopment Corporation ("Taunton Corp") was formed to own and redevelop the property. Redevelopment of the property includes expansion of the existing 150 acres of the Myles Standish Industrial Park and development of a life science park including a training/education center. Grants have been provided by the Commonwealth through Massworks and the Economic Development Administration. Taunton Corp is included in the consolidated financial statements of the Agency as the majority of the Taunton Corp board members are executives of the Agency. The Agency also provides consultant services related to the redevelopment of the property and financial services for the Taunton Corp. The net position of Taunton Corp. was approximately $4.8 million and $379,000 as of June 30, 2013 and 2012, respectively.

2. Significant Accounting Policies

Accounting and Reporting Standards
These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), as prescribed by the Governmental Accounting Standards Board ("GASB"), codification section 2100.

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, the statement of cash flows, and management's discussion and analysis as required supplemental information. 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 nonoperating activities in the statement of revenues, expenses and changes in net position. Operating activities are those that support the mission and purpose of the Agency. Nonoperating activities represent transactions that are capital, investing, legislative or regulated in nature.

Net position represents the residual interest in the Agency's assets plus deferred outflows of resources after liabilities plus deferred inflows 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.

- **Restricted**
  Nonexpendable – Net position subject to externally imposed stipulations such that the Agency maintains them permanently. For years ended June 30, 2013 and 2012, the Agency did not have any nonexpendable restricted net position.

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

  Net position is reported as restricted when there are third party limitations (statutory, contractual or bond covenant) on its use.

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

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

Principles of Consolidation
The financial statements include the Agency and its component units. All significant inter-entity transactions and accounts have been eliminated.

Basis of Accounting
The financial statements were prepared using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under the accrual basis, revenue is recognized when earned and expenses are recognized when obligations are incurred or when benefits are received.

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

Investments
The Corporation's investments with maturity dates of greater than one year at the time of purchase are reported at fair value using quoted market price. Fair value is defined by GASB Statement No. 31, *Certain Investments and External Investment Pools*, as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenue in the accompanying statements of revenue, expenses and changes in net position except for the guaranteed investment contract that is reported at contract value. Contract value represents contributions made under the contract plus accrued interest.

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

Loans Receivable and Predevelopment and Brownfield Receivable, net
Loans receivable consist of loans issued by the Agency for various economic development programs. Predevelopment and Brownfield receivable consist of loans issued by the Agency to finance early stage project costs (i.e. architectural and engineering costs) which are necessary to advance a project to the construction stage.

These loans receivable are stated at principal amount outstanding, net of a provision for loan loss. Loans are charged against the provision for loan loss when the Agency believes the collectibility of the principal is unlikely. The provision for loan loss is an amount that the Agency believes will be adequate to absorb possible loan losses of existing loans that are expected to become uncollectible.

Investment in Joint Ventures
The Agency accounts for its participating interest in its joint ventures using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for the Agency's share of net income or loss, cash contributions or distributions to and from its joint ventures and impairment loss on the joint ventures. Any impairment loss represents a write down to the investment as projections related to the investment show that it is not probable that the investment balance will be recoverable from distributions from future sales.

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

Interest Receivable
Interest receivable represents the amount of interest revenue that was earned, but not yet been received by the end of the fiscal year in relation to loans receivable and investments.

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

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

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

Interest Capitalization
The Agency may capitalize certain interest associated with borrowed funds for specific projects, less any interest earned on temporary investment of the proceeds of such borrowings during the period of construction. No interest was capitalized during fiscal years 2013 and 2012.

Capital Assets, Net
Capital assets are carried at cost less accumulated depreciation. The Agency's threshold for classification of a capital asset is $5,000. Depreciation is provided for using the straight-line method over the estimated useful life of the asset ranging from 1 to 40 years as noted below:

	Depreciable Years
Land	N/A
Building	20-40
Buildings/land/tenant improvements	1-20
Infrastructure	5-20
Equipment	3-10
Office equipment	3-5
Construction in progress	N/A
Assets held for sale	N/A

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

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

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

Bonds Payable

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

Revenue Recognition

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

Organizational fee income for the New Markets Tax Credit programs is recognized as New Markets Tax Credit fees on the date of the closing of the related New Markets Tax Credit program. This fee is a one-time cost associated with setting up and organizing the program. Management fee income for the New Markets Tax Credit programs is recorded as services related to managing the operations of the New Markets Tax Credit programs are performed.

Rental income is recognized on a straight-line basis for facility space rentals as it is earned. Advanced receipts of rental income are classified as liabilities until earned. All leases are operating leases. Rental income consists of base rent and reimbursements for certain operating expenses. Rental income is mainly related to the M/SBRC, Fall River, Devens and Springfield properties. Rental income is included in the statements of revenues, expenses and changes in net position operating revenues Devens operating revenue, other, and M/SBRC and other revenue line items.

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

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

Contributions from the Commonwealth of Massachusetts are recognized according to the terms of the related agreement. The Cultural Facilities Fund and Devens Fund infrastructure improvement disbursements are reimbursement type grants and are recognized as qualifying expenses are incurred.

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

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

Gains on sales of real estate are recognized as earned. Certain purchase and sale agreements include a repurchase clause; therefore, these gains on sales will be recognized once the conditions in the repurchase clauses are satisfied.

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

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

Impairment Loss on Joint Ventures
Management analyzes its equity method investments to determine whether the amounts are considered to be permanently impaired based upon its best estimates of the cash flows from the investment. If a permanent impairment in carrying value exists, a provision to write down the investment to the estimated cash flows realizable from the investment will be recorded in the Agency's financial statements. For the years ended June 30, 2013 and 2012, the Agency recognized an impairment loss of $7.0 million and $4.0 million, respectively, on its investment in Hospital Hill LLC. The Agency also recognized an impairment loss of $506,449 on its investment in Cape Ann Fisheries Development Corporation in fiscal year 2012.

Reclassification
Certain amounts previously reported in the 2012 financial statements have been reclassified to be comparable to the 2013 presentation including a reclassification of $7,223,606 from current cash and cash equivalents to current cash and cash equivalents-restricted for use as of June 30, 2012.

New Accounting Pronouncements
In July 2011, the GASB issued Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position,* effective for the Agency's fiscal year beginning July 1, 2012. This statement establishes guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position. The adoption of this standard did not have a significant impact on the Agency's financial statements other than to add this information to the statement of financial position.

In June 2011, the GASB issued Statement No. 64 (GASB 64), *Derivative Instruments: Application of Hedge Accounting Termination Provisions.* GASB 64 is intended to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement is effective for fiscal years beginning after June 15, 2011. The adoption of this standard did not have a significant impact on the Agency's financial statements.

In April 2012, the GASB issued GASB 65, *Items Previously Reported as Assets and Liabilities,* effective for the Agency's fiscal year beginning July 1, 2013. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Agency implemented this statement during fiscal year 2013. The Agency restated its fiscal year 2012 beginning net position by $9,359,297. Deferred financing costs of $7,355,141 and deferred expenses of $2,004,156 were retroactively fully amortized due to the implementation of GASB 65.

In March 2012, the GASB issued GASB No. 66 – *Technical Correction – 2012* GASB No. 66 clarifies implementation issues that were presented in GASB No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The standard provides clarification that the purchase price of loans is to include the amount paid to the seller plus any fees paid, less any fees, received. For the Agency, the amendments in GASB No. 66 are effective beginning with the periods beginning after December 15, 2012. Early adoption of the standard is permitted. This standard is not expected to have a significant impact on the Agency's financial statements.

In June 2012, the GASB issued GASB No. 67 – *Financial Reporting for Pension Plans.* GASB No. 67 replaces requirements of GASB Statements No. 25 and No. 50, related to pension plans administered through trusts or similar arrangements. The standard uses existing framework for financial reports of defined benefit pension plans, including a statement of fiduciary net position and a statement of changes in fiduciary net position. The standard enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. In addition, the standard requires the presentation of information about annual money-weighted rates of return in the notes and in 10-year required supplementary information schedules. For the Agency, the amendments in GASB No. 67 are effective beginning with the fiscal year beginning after June 15, 2013. Early adoption of the standard is permitted. This standard is not expected to have a significant impact on the Agency's financial statements.

In June 2012, the GASB issued GASB No. 68 – *Accounting and Financial Reporting for Pensions.* GASB No. 68 replaces requirements of GASB Statements No. 27 and No. 50, related to pension plans administered through trusts or similar arrangements. The standard requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. In addition, the standard adds revised and new note disclosures and required supplementary information. For the Agency, the amendments in GASB No. 68 are effective beginning with the fiscal year beginning after June 15, 2014. Early adoption of the standard is permitted. This standard is not expected to have a significant impact on the Agency's financial statements.

In January 2013, the GASB issued GASB No. 69 – *Government Combinations and Disposals of Government Obligations*. The standard establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. GASB No. 69 is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. This standard is not expected to have a significant impact on the Agency's financial statements.

In April 2013, the GASB issued GASB No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The standard requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. It requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. It also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The provisions of this standard are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. The Agency is currently evaluating the impact of adoption of this standard will have on its financial statements.

3. Programs of the Agency

The following describes certain programs or divisions of the Agency. Please also refer to the Supplemental Consolidating Information on pages 62-63.

General Operations Program

The General operations program supports five major programs of the Agency: direct lending, investment banking, development/redevelopment of properties, consulting/technical assistance to communities and support of the defense sector in the Commonwealth. The Agency's lending programs consist of business loans, real estate mortgages, equipment loans and development loans. Lending programs generate fee income at closings and interest income. Investment banking acts as a conduit issuer for tax-exempt bond financing for a variety of borrowers. Investment banking generates fee income at bond issuances. The Agency invests funds in real estate developments in support of its development/redevelopment of blighted and/or surplus public properties within the Commonwealth. The Agency is actively involved in the development and/or ongoing operations of seven properties in Devens, Springfield, Northampton, Fall River, Boston, Taunton and Gloucester. The Agency provides technical assistance to communities through various programs including loans and consulting services.

The Agency also devotes staff time toward defense sector work. Current defense sector projects include economic analysis of the importance of the Commonwealth military installations and work on the Commonwealth's Military Asset and Security Strategy Task Force. The net position of the General operations program was approximately $206.5 million and $214.7 million as of June 30, 2013 and 2012, respectively.

Devens Operations Program
The Devens operations program was established under Chapter 498 of the Acts of 1993, as amended (with respect to the redevelopment of the former Fort Devens, a former federal military base). With financial support from the Commonwealth, the Agency purchased the property and has been redeveloping Devens, a 4,400 acre mixed-use community located in Devens, MA, by creating a sustainable and diverse residential and business community. The Agency currently provides municipal services, education, environmental protection, redevelopment and property leasing services at Devens. The net position of the Devens operations program was approximately $81.6 million and $81.9 million as of June 30, 2013 and 2012, respectively.

Brownfield Redevelopment Program
The Brownfield Redevelopment program was established in 1998 as part of the Commonwealth's Brownfield Act to encourage reuse of environmentally contaminated property in economically distressed areas of the Commonwealth rather than open space for new economic development. This legislation initially allocated a total of $30.0 million to the program for the purpose of financing assessments and clean ups of eligible Brownfield sites. The Agency received an additional $30.0 million allocation in 2007. This program is administered by the Agency and must be invested according to an established Agency investment policy related to restricted funds. All related interest income must be utilized for the administration of the program. The Agency had approximately $3.1 million and $3.5 million of gross Brownfield loans receivable with loan loss reserves of approximately $0.9 million and $1.5 million for net Brownfield loans receivable of approximately $2.2 million and $2.0 million outstanding as of June 30, 2013 and 2012, respectively. The Agency also issued approximately $5.4 million and $4.3 million of grant awards during fiscal years 2013 and 2012, respectively. As of June 30, 2013 and 2012, approximately $23.5 million and $30.6 million, respectively, are available for disbursement. The net position of this program is approximately $26.9 million and $34.2 million as of June 30, 2013 and 2012, respectively.

Emerging Technology Program
The Emerging Technology Program ("ETP") was established under Sections 27 and 28 of Massachusetts General Laws Chapter 23G. ETP leverages private financing to develop specialized facilities for businesses, which develop or commercialize emerging technologies. During fiscal years prior to 2009, the Agency received $49.8 million from the Commonwealth for ETP. In fiscal year 2011, the Agency disbursed $15.0 million to the Massachusetts Growth Capital Corporation as directed in legislation by the Commonwealth of Massachusetts. The Agency had approximately $17.4 million and $13.6 million of gross ETP loans receivable with loan loss reserves of approximately $8.8 million and $7.2 million for net ETP loans receivable of approximately $8.6 million and $6.4 million outstanding as of June 30, 2013 and 2012, respectively.

As of June 30, 2013 and 2012, the Agency had approximately $18.4 million and $22.5 million, respectively, available for disbursement. The net position of this program is approximately $27.5 million and $28.8 million as of June 30, 2013 and 2012, respectively. The Agency assets at risk due to outstanding ETP guarantees, including commitments, at June 30, 2013 and 2012, were $241,667 and $541,667, respectively. The Agency has also committed an additional $5.0 million to an equity investment in the Commonwealth Fund III LLC from the ETP program. As of June 30, 2013 a total of $474,190 had been contributed to the Commonwealth Fund III LLC.

Cultural Facilities Program
The Cultural Facilities Program was established under section 42 of the Massachusetts General Laws chapter 23G, effective July 13, 2006. The purpose of the Cultural Facilities program is to make grants or loans for the acquisition, design, construction, repair, renovation, rehabilitation or other capital improvement or deferred maintenance of a cultural facility. All related interest income must be utilized for the administration of the program. In fiscal years 2007 through 2009, the Agency received funding in the amount of $39.2 million from the Commonwealth of Massachusetts. The Agency was awarded another $17.0 million in fiscal years 2013 and 2012. These new funds are given to the Agency on a reimbursement basis as grants are awarded. The Agency awarded approximately $6.1 million and $5.9 million of grant awards during fiscal years 2013 and 2012, respectively. As of June 30, 2013 and 2012, approximately $5.5 million and $8.3 million are available for disbursement, respectively. The net position of this program is approximately $4.5 million and $6.1 million as of June 30, 2013 and 2012, respectively.

Massachusetts Export Development Program
This program serves as a guarantee to lending institutions for their insurance of working capital loans to Massachusetts exporters. These funds are administered by the Agency and must be invested in securities issued by the Treasury of the United States Government or the Commonwealth. All related investment income must be utilized for the administration of this program. The Agency has designated approximately $3.9 million and $4.0 million at June 30, 2013 and 2012, respectively, for the Massachusetts Export Program. Total Agency assets at risk due to Massachusetts Export Development Program guarantees outstanding, including commitments, aggregated approximately $4.8 million and $2.9 million at June 30, 2013 and 2012, respectively. The net position of this program is approximately $3.9 million and $4.0 million as of June 30, 2013 and 2012, respectively.

Mortgage Insurance Program
The purpose of the Mortgage Insurance Program is to encourage private sector investment by guaranteeing a portion of bank loans or bond issues. Premium income received and other monies made available to the program are credited thereto. This premium income is amortized over the loan guarantee period. The Agency has designated approximately $7.3 million and $7.2 million at June 30, 2013 and 2012, respectively, for the Mortgage Insurance Program and are considered restricted funds. Total Agency assets at risk due to mortgage insurance in force, including commitments, under the Guaranteed Loan Program, aggregated approximately $9.7 million and $6.4 million at June 30, 2013 and 2012, respectively. The net position of this program is approximately $7.0 million and $7.1 million as of June 30, 2013 and 2012, respectively.

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

During the years ended June 30, 2013 and 2012, the Charitable Trust awarded grants of $246,561 and $248,649, respectively, to charitable institutions. As of June 30, 2013 and 2012, approximately $11.2 million and $11.7 million are available for future payments, respectively. The grants are reported as capital grant awards in the accompanying statements of revenues, expenses and changes in net position. The net position of this fund is approximately $11.5 million and $11.7 million as of June 30, 2013 and 2012, respectively.

Credit Enhancement of Charter School Facilities Program
In 2005, the Agency was awarded $10.0 million from the U.S. Department of Education to enable the Agency to facilitate the financing of charter schools through the issuance of loan guarantees. These funds are held as short-term investments by the Agency under the terms of the grant and can be used to pay claims on its guarantees. As of June 30, 2013 and 2012, approximately $11.6 million and $11.5 million are available for loan guarantees, respectively. Total Agency assets at risk due to outstanding guarantees, including commitments, aggregated approximately $12.0 million and $10.4 million at June 30, 2013 and 2012, respectively. The net position of this fund is approximately $11.4 million and $11.5 million as of June 30, 2013 and 2012, respectively.

Devens Electric Utility Division
In February 2001, the Agency issued Electrical System Revenue Bonds, Series 2001 for the purpose of financing the design, construction, installation and associated costs of the electrical system at Devens, as part of its Devens operations. As required by Section 609 of the Master Trust Indenture by and between the Agency and the Trustee, the Agency accounts for all related revenues and expenditures associated with the electric utilities at Devens as a separate division within the Agency (the "Devens Electric Utility Division"). Net position of the Devens Electric Utility Division was approximately $19.2 million and $20.5 million as of June 30, 2013 and 2012, respectively. Please also refer to Footnote 16 Segment Reporting.

Devens Gas, Water and Wastewater Utility Divisions
Devens also provides natural gas, water and sewer services to the residents and businesses of Devens, MA., as part of its Devens operations. The utility divisions pursue programs aimed at increasing energy supply, reliability and efficiency while limiting costs. The Agency tracks each utility division as a separate and distinct program. The net position of these Utility Divisions was approximately $23.3 million and $22.4 million as of June 30, 2013 and 2012, respectively.

Bond Issuance Program
The Bond Issuance Program allows the Agency to offer composite bond issues to the public using Agency insurance and a letter of credit from a rated financial institution. The program provides fixed rate long-term financing for eligible projects.

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

June 30, 2013	**Carrying Amount**
Cash Deposits	$ 57,372,544
Massachusets Municipal Depository Trust (cash portfolio)	2,055,011
	$ 59,427,555

June 30, 2012	**Carrying Amount**
Cash Deposits	$ 58,556,543
Massachusets Municipal Depository Trust (cash portfolio)	2,050,565
	$ 60,607,108

The Agency invests some of its funds in the Massachusetts Municipal Depository Trust ("MMDT" or the "Trust"), an 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. 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. A copy of the financial statements of MMDT can be obtained from the Office of the State Treasurer, 1 Ashburton Place, Boston, MA 02110.

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

General program operations allowed investments include: U.S. Treasuries, U.S. government agency issues, bank certificates of deposit or time deposits, banker's acceptance, short-term corporate obligations, repurchase agreements, asset backed securities, and money market funds. The maximum maturity of any investment is 5 years with the exception of floating rate notes, with 10% of the portfolio always being available in one day.

Restricted program operations allowed investments include: bonds, notes and similar debt instruments issued by corporations, trusts, partnerships, and limited liability companies; commercial paper; U.S. time deposits, certificates of deposit and banker's acceptances; fixed, variable and indexed rate notes; repurchase agreements; and securities issued by companies, trusts and other entities registered under the 1940 Act or exempt from the 1940 Act under Section 3(c). The maximum allowable dollar-weighted average maturity is 90 days. The maximum maturity of any investment is 397 days, with 10% of the portfolio always being available in one day.

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

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

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

Concentration of Credit Risk
Concentration of credit risk is assumed to arise when the amount of cash and investments that the Agency has with any one issuer exceeds five percent of the total value of the Agency's investments. As of June 30, 2013, the cash and investments held in any one issuer over five percent of the total value of the Agency's investments include a $29.2 million money market fund (17.1%), a $15.5 million U.S. Treasury fund (9.1%) and a $13.3 million guaranteed investment contract (7.8%).

As of June 30, 2012, the cash and investments held in any one issuer over five percent of the total value of the Agency's cash and investments include a $55.6 million money market fund (29.9%), a $15.6 million U.S. Treasury fund (8.4%) and a $13.3 million guaranteed investment contract (7.2%).

Foreign Currency Risk
The investment policy of the Agency limits the Agency's foreign currency risk by excluding foreign investments as an investment option.

Depository Accounts

	June 30, 2013	June 30, 2012
Insured	$ 25,366,249	$ 22,318,321
Uninsured and uncollateralized	32,006,295	36,238,222
	$ 57,372,544	$ 58,556,543

At June 30, 2013 and 2012, investments of approximately $51.7 million and $63.8 million, respectively, were designated for purposes such as specific loan programs and designations by the Commonwealth and are included in short term investments in the statements of net position.

At June 30, 2013 and 2012, short term investments included approximately $89.3 million and $105.9 million, respectively, of restricted investments. Long term restricted investments were approximately $23.2 and $22.4 million as of June 30, 2013 and 2012, respectively.

As of June 30, 2013, the Agency's investments by maturity are summarized as follows:

		Investment Maturities (in years)		
Investment Type	Fair Value	Less Than 1	1 to 5 *	More Than 5
U.S. Treasury Bonds	$ 37,488,802	$ -	$ 37,488,802	$ -
Federal Agency Bonds/Notes	19,282,824	-	19,282,824	-
Corporate Notes	2,290,732	1,820,090	470,642	-
Commercial Paper	11,191,898	11,191,898	-	-
Certificates of Deposit	41,782,853	33,547,038	8,235,815	-
Asset Backed Securities	27,599	-	27,599	-
PFM Prime Institutional Class Money Market Fund	29,223,509	29,223,509	-	-
US Bank First American U.S. Treasury Fund	15,491,204	15,491,204	-	-
Natixis Funding Corporation Guarantee Investment Contracts	13,265,815	-	-	13,265,815
Other Guarantee Investment Contracts	223,413	-	-	223,413
Common Stock	35,117	-	-	35,117
	$ 170,303,766	$ 91,273,739	$ 65,505,682	$ 13,524,345

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

As of June 30, 2012, the Agency's investments by maturity are summarized as follows:

		Investment Maturities (in years)		
Investment Type	Fair Value	Less Than 1	1 to 5 *	More Than 5
U.S. Treasury Bonds	$ 20,656,886	$ 652,107	$ 20,004,779	$ -
Federal Agency Bonds/Notes	29,473,796	625,115	28,848,681	-
Corporate Notes	9,542,595	8,978,703	563,892	-
Commercial Paper	16,712,359	16,712,359	-	-
Certificates of Deposit	24,575,853	23,070,648	1,505,205	-
Asset Backed Securities	286,439	-	286,439	-
PFM Prime Institutional Class Money Market Fund	55,552,254	55,552,254	-	-
US Bank First American U.S. Treasury Fund	15,624,773	15,624,773	-	-
Natixis Funding Corporation Guarantee Investment Contracts	13,265,815	-	-	13,265,815
Other Guarantee Investment Contracts	221,063	-	-	221,063
	$ 185,911,833	$ 121,215,959	$ 51,208,996	$ 13,486,878

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

As of June 30, 2013, the Agency's investments by quality rating are summarized as follows:

		Quality Ratings			
Investment Type	Fair Value	AAA	AA	A	Unrated *
U.S. Treasury Bonds	$ 37,488,801	$ -	$ 37,488,801	$ -	$ -
Federal Agency Bonds/Notes	19,282,824	-	19,282,824	-	-
Corporate Notes	2,290,732	-	1,820,090	-	470,642
Commercial Paper	11,191,899	-	-	11,191,899	-
Certificates of Deposit	41,782,853	-	1,741,545	40,041,308	-
Asset Backed Securities	27,599	27,599	-	-	-
PFM Prime Institutional Class Money Market Fund	29,223,509	29,223,509	-	-	-
US Bank First American U.S. Treasury Fund	15,491,204	15,491,204	-	-	-
Natixis Funding Corporation Guarantee Investment Contracts	13,265,815	-	-	13,265,815	-
Other Guarantee Investment Contracts	223,413	-	-	223,413	-
Common Stock	35,117	-	-	-	35,117
	$ 170,303,766	$ 44,742,312	$ 60,333,260	$ 64,722,435	$ 505,759

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

As of June 30, 2012, the Agency's investments by quality rating are summarized as follows:

Investment Type	Fair Value	Quality Ratings AAA	AA	A	Unrated *
U.S. Treasury Bonds	$ 20,656,886	$ -	$ 20,656,886	$ -	$ -
Federal Agency Bonds/Notes	29,473,796	-	29,473,796	-	-
Corporate Notes	9,542,596	-	7,895,028	1,083,676	563,892
Commercial Paper	16,712,359	-	-	16,712,359	-
Certificates of Deposit	24,575,853	-	430,775	24,130,078	15,000
Asset Backed Securities	286,438	251,990	-	-	34,448
PFM Prime Institutional Class Money Market Fund	55,552,254	55,552,254	-	-	-
US Bank First American U.S. Treasury Fund	15,624,773	15,624,773	-	-	-
Natixis Funding Corporation Guarantee Investment Contracts	13,265,815	-	-	13,265,815	-
Other Guarantee Investment Contracts	221,063	-	-	221,063	-
	$ 185,911,833	$ 71,429,017	$ 58,456,485	$ 55,412,991	$ 613,340

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

5. Investments in Joint Ventures

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

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

	June 30, 2012	Capital Contributions	Distributions	Impairment Loss	Share of Operating Loss	June 30, 2013
Investment in Hospital Hill	$ 13,386,244	$ 1,519,835	$ (664,991)	$ (7,000,000)	$ (345,220)	$ 6,895,868
Investment in Commonwealth Fund III LLC	-	474,190			(33,012)	441,178
Investments in NMTC entities	21,572	500	(2,420)	-	(525)	19,127
	$ 13,407,816	$ 1,994,525	$ (667,411)	$ (7,000,000)	$ (378,757)	$ 7,356,173

	June 30, 2011	Capital Contributions	Distributions	Impairment Loss	Share of Operating Loss	June 30, 2012
Cape Ann Equity Investment	$ 506,449	$ -	$ -	$ (506,449)	$ -	$ -
Investment in Hospital Hill	16,994,108	756,068	(259,360)	(4,000,000)	(104,572)	13,386,244
Investments in NMTC entities	18,733	2,925	(384)	-	298	21,572
	$ 17,519,290	$ 758,993	$ (259,744)	$ (4,506,449)	$ (104,274)	$ 13,407,816

The Agency is a 73.099% participant and the managing member in Hospital Hill LLC (the "LLC"). The LLC was formed to acquire and redevelop the former Northampton State Hospital site in Northampton, Massachusetts. The redevelopment effort focuses on office/light industrial space, mixed use space and retail space, approximately 300 housing units consisting of both multi-family housing units and single-family houses and approximately 60-80 assisted living units. No separate financial statements are issued for this LLC.

The Agency is a 98% member in the Commonwealth Fund III LLC ("Fund"). The managing member is Massachusetts Technology Development Corporation. The primary purpose of the Fund is to invest in entities broadly related to the technologies industry such as robotics, instrumentation, telecom, computers, software, healthcare IT and mobile applications. The Agency has committed a total of $5.0 million to the Commonwealth Fund III LLC investment from ETP. As of June 30, 2013 $474,190 had been contributed to the Commonwealth Fund III LLC. Separate financial statements are issued for this Fund and copies may be obtained by contacting Simon Gerlin, CFO, Massachusetts Development Finance Agency, 99 High Street, 11th Floor, Boston, MA. 02110.

The Agency has a 0.01 to 0.10% investment allocation in the Investments in New Markets Tax Credit entities ("NMTC entities"). The Agency, via subsidiary entities MassDevelopment New Markets LLC ("MDNM") and Mass HEFA New Markets CDE LLC ("HEFA CDE"), was awarded the right to allocate federal New Markets Tax Credits against $216 million and $66 million, respectively, of its investors' investments by the United States Department of the Treasury. New Markets Tax Credits have been made available to banks, corporations, partnerships and funds that invest in MDNM and HEFA CDE; the proceeds of their investments will be reinvested in business and commercial development in low-income census tracts. As of June 30, 2013, the Agency had closed on a total of sixteen such transactions. Separate financial statements are issued for these entities and copies may be obtained by contacting Simon Gerlin, CFO, Massachusetts Development Finance Agency, 99 High Street, 11th Floor, Boston, MA. 02110.

6. Loans Receivable

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

	June 30, 2012	Disbursements (Provisions, net)	(Collections)/ Write-offs	June 30, 2013
Loans receivable	$ 109,220,281	$ 19,992,829	$ (18,857,117)	$ 110,355,993
Less: allowance for loan loss	(15,615,993)	(720,255)	1,684,156	(14,652,092)
	$ 93,604,288	$ 19,272,574	$ (17,172,961)	$ 95,703,901

	June 30, 2011	Disbursements (Provisions, net)	(Collections)/ Write-offs	June 30, 2012
Loans receivable	$ 94,678,149	$ 32,780,018	$ (18,237,886)	$ 109,220,281
Less: allowance for loan loss	(13,846,362)	(2,837,544)	1,067,913	(15,615,993)
	$ 80,831,787	$ 29,942,474	$ (17,169,973)	$ 93,604,288

Most loans are collateralized by a first or shared first position in the underlying collateral. As of June 30, 2013 and 2012, respectively, 18 loans totaling $6.4 million and 14 loans totaling $7.4 million are collateralized by second positions in the underlying property. Also, as of June 30, 2013 and 2012, respectively, 10 loans totaling $2.4 million and 9 loans totaling $2.4 million are collateralized by third and fourth positions. As of June 30, 2013 and 2012, respectively, 4 loans totaling $3.2 million and 3 loans totaling $3.4 million are unsecured.

Loans receivable are stated at principal amount outstanding, net of a provision for loan loss. Loans are charged against the provision for loan loss when the Agency believes the collectibility of the principal is unlikely. The provision for loan loss is an amount that the Agency believes will be adequate to absorb possible loan losses of existing loans that are expected to become uncollectible.

There were approximately $13.7 million and $10.4 million net loans receivable that were considered nonaccrual loans as of June 30, 2013 and 2012, respectively. All payments received from borrowers for nonaccrual loans are applied to the principal balance of the loan.

7. Interest Receivable

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

	2013	2012
Investment interest	$ 604,679	$ 638,846
Loan interest	2,752,306	2,260,302
	$ 3,356,985	$ 2,899,148

Interest receivable includes amounts earned but not received on both investments and loans, net of an allowance for doubtful accounts. When the Agency believes the collectability of the interest is unlikely, a reserve against interest is charged as a component of the allowance for doubtful accounts. As of June 30, 2013 and 2012, no allowance was deemed necessary.

8. Predevelopment and Brownfield Receivables

The following is a summary of the Agency's Predevelopment and Brownfield receivables as of June 30:

	June 30, 2012	Disbursements (Provision, net)	(Collections)/ Write-offs	June 30, 2013
Predevelopment and Brownfield receivables	$ 4,494,293	$ 1,659,493	$ (1,457,132)	$ 4,696,654
Less: accumulated provision	(2,898,713)	(1,337,426)	642,899	(3,593,240)
	$ 1,595,580	$ 322,067	$ (814,233)	$ 1,103,414

	June 30, 2011	Disbursements (Provision, net)	(Collections)/ Write-offs	June 30, 2012
Predevelopment and Brownfield receivables	$ 4,694,698	$ 655,380	$ (855,785)	$ 4,494,293
Less: accumulated provision	(3,186,367)	(126,623)	414,277	(2,898,713)
	$ 1,508,331	$ 528,757	$ (441,508)	$ 1,595,580

Predevelopment and Brownfield receivables represent amounts advanced to organizations for the purpose of conducting market analysis and feasibility studies for expansion of operations.

Advanced funds are recovered in accordance with individual terms as stated in the memoranda of agreement and evaluation of collectibility.

The accumulated provision acts as an allowance and is an amount that the Agency estimates will be adequate to absorb possible losses of existing receivable, that are expected to become uncollectible.

In addition to the advances noted above, the Agency awarded approximately \$5.4 million and \$4.3 million of Predevelopment and Brownfield grant awards during fiscal years 2013 and 2012, respectively, which are included in the statements of revenues, expenses and changes in net position.

9. Capital Assets

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

	Useful Life Range in Years	June 30, 2012	Additions/ (Transfers)	Disposals/ Transfers	June 30, 2013
Capital:					
Land	N/A	$ 8,176,162	$ (2)	$ (24,537)	$ 8,151,623
Building	20-40	166,856,468	559,090	(100,522)	167,315,036
Buildings/land/tenant improvements	1-20	38,429,361	55,328	(3,000)	38,481,689
Infrastructure	5-20	131,100,526	2,502,804	(171,431)	133,431,899
Equipment	3-10	4,460,540	360,683	-	4,821,223
Office equipment	3-5	3,130,205	405,054	(19,124)	3,516,135
Construction in progress		665,111	(313,683)	-	351,428
Assets held for sale		848,437	6,220,004	(113,663)	6,954,778
Subtotal		353,666,810	9,789,278	(432,277)	363,023,811
Less: accumulated depreciation					
Building		(43,346,244)	(4,121,143)	40,556	(47,426,831)
Buildings/land/tenant improvements		(18,389,584)	(1,966,646)	(9,037)	(20,365,267)
Infrastructure		(43,321,504)	(5,581,355)	15,071	(48,887,788)
Equipment		(3,726,182)	(229,098)	-	(3,955,280)
Office equipment		(2,877,109)	(165,320)	19,124	(3,023,305)
		(111,660,623)	(12,063,562)	65,714	(123,658,471)
Total		$ 242,006,187	$(2,274,284)	$ (366,563)	$239,365,340

	Useful Life Range in Years	June 30, 2011	Additions/ (Transfers)	Disposals/ Transfers	June 30, 2012
Capital:					
Land	N/A	$ 8,252,784	$ 2	$ (76,624)	$ 8,176,162
Building	20-40	166,584,364	379,226	(107,122)	166,856,468
Buildings/land/tenant improvements	1-20	38,396,634	32,727	-	38,429,361
Infrastructure	5-20	128,628,828	3,213,404	(741,706)	131,100,526
Equipment	3-10	4,263,324	197,216	-	4,460,540
Office equipment	3-5	2,946,362	183,843	-	3,130,205
Construction in progress		1,908,335	(1,243,224)	-	665,111
Assets held for sale		848,437	-	-	848,437
Subtotal		351,829,068	2,763,194	(925,452)	353,666,810
Less: accumulated depreciation					
Building		(39,390,852)	(3,961,002)	5,610	(43,346,244)
Buildings/land/tenant improvements		(16,312,317)	(2,077,267)	-	(18,389,584)
Infrastructure		(37,907,299)	(5,598,078)	183,873	(43,321,504)
Equipment		(3,507,534)	(218,648)	-	(3,726,182)
Office equipment		(2,674,507)	(202,602)	-	(2,877,109)
		(99,792,509)	(12,057,597)	189,483	(111,660,623)
		$ 252,036,559	$(9,294,403)	$ (735,969)	$242,006,187

100 Cambridge Street Project
As of June 30, 2013 and 2012, the Agency has cumulative net costs associated with the 100 Cambridge Street Project of approximately $113.2 million and $117.4 million, respectively, which is included in capital assets. The related depreciation expense for the years ended June 30, 2013 and 2012 was approximately $4.0 million and $4.1 million, respectively.

Fall River
In 2001, construction was completed on the Kerr Mill site in Fall River, Massachusetts. The Agency was responsible for the construction of the Advanced Technology and Manufacturing Center for the University of Massachusetts (known as "ATMC"). The ATMC is built on the site of the Kerr Mill, which was destroyed by fire on January 12, 1987. The Agency's cumulative net costs of approximately $9.6 million and $9.9 million, respectively, related to this project as of June 30, 2013 and 2012, are included in capital assets. The related depreciation expense for the years ended June 30, 2012 and 2011 was approximately $353,000 and $377,000, respectively.

Devens
As of June 30, 2013 and 2012, the Agency has cumulative net costs associated with the development of Devens, including utilities, of approximately $102.9 million and $92.0 million, respectively, which are included in capital assets. The related depreciation expense for the years ended June 30, 2013 and 2012 was approximately $6.8 million, respectively.

The Agency had three lot sales at Devens, MA in fiscal year 2013 resulting in gross sales proceeds of approximately $134,000 and a net gain of approximately $13,000. There was an additional lot sale at Devens, MA during the fiscal year and a gain of approximately $288,000 was deferred due to a repurchase clause in the purchase and sale agreement. The gain on the sale will be recognized once the conditions in the repurchase clause are satisfied.

The Agency had seven lot sales at Devens, MA during fiscal year 2012 that resulted in gross sales proceeds of $3.2 million and net gains on sale of $2.7 million. There was an additional lot sale at Devens, MA during the fiscal year and a gain of approximately $469,000 was deferred due to a repurchase clause in the purchase and sale agreement. The gain on the sale will be recognized once the conditions in the repurchase clause are satisfied.

Springfield
The Agency purchased a building at 1550 Main Street in Springfield, Massachusetts in September 2009 for a purchase price of $2.5 million. The Agency has cumulative net costs associated with 1550 Main Street of approximately $6.5 million and $7.1 million as of June 30, 2013 and 2012, respectively, which is included in capital assets. The major redevelopment projects included replacement of elevators, renovation of restrooms, replacement of a public plaza and significant renovations to the building's storefront and public atrium. The Agency recognized approximately $3.0 million of capital grant revenue associated with the redevelopment projects to date. The related depreciation expense for the years ended June 30, 2013 and 2012 was approximately $711,000 and $649,000, respectively.

Taunton

In January 2012, the Agency, in partnership with Taunton Development Corporation ("TDC"), purchased from the Commonwealth of Massachusetts, the former Dever State School core campus in Taunton, MA. The property consists of approximately 220 acres with approximately 40 dilapidated buildings and underground tunnels. A new non-profit corporation called Taunton Development MassDevelopment Corporation ("Taunton Corp.") was formed to own and redevelop the property. Redevelopment work on the property of approximately $6.1 million and $710,000 was done during fiscal years 2013 and 2012, respectively. Approximately $4.3 million and $373,000 in grant income was recognized during fiscal years 2013 and 2012, respectively in relation to the redevelopment.

The Agency had a lot sale at the Taunton property with gross sales proceeds of $405,000 and a net gain of approximately $264,000 during the fiscal year.

Leases

The Agency leases office, commercial, and retail space at 100 Cambridge Street, Kerr Mill, Springfield, Boston, Devens and Taunton. At June 30, 2013, the Agency had minimum future rental income, under long-term non-cancelable operating leases with various expiration dates through fiscal year 2062, for facilities over the next five years as follows:

Operating Leases

Fiscal Year	Rental Income
2014	$ 19,265,036
2015	18,184,999
2016	16,456,909
2017	13,810,838
2018	12,148,463
Total	$ 79,866,245

10. Outstanding Loans, Commitments and Revenue Bonds Issued

The Agency issued loans under its economic development programs aggregating $20.0 million and $32.8 million during fiscal years 2013 and 2012, respectively, and has committed to issuing an additional $6.9 million and $11.5 million of loans as of June 30, 2013 and 2012, respectively.

Leases

At June 30, 2013, the Agency had minimum future rental commitments under long-term non-cancelable operating leases for facilities as follows:

Fiscal Year	Rent Expense
2014	$ 3,265,670
2015	4,105,213
2016	4,058,443
2017	3,835,661
2018	3,748,806
2019-2023	18,877,333
2024-2028	14,838,906
2029-2033	12,250,000
2034-2038	12,250,000
2039-2043	12,250,000
2044-2048	12,250,000
2049-2052	9,800,000
Total	$ 111,530,032

Rent expense included in the accompanying statements of revenues, expenses and changes in net position was approximately $4.2 million for fiscal years 2013 and 2012, respectively.

In 2004, the Agency (M/SBRC) entered into a 50 year ground lease with the Commonwealth for 100 Cambridge Street. The lease contains an option to extend for two 15 year periods. Annual base rent for the ground lease is approximately $2.5 million each year and is included in property, maintenance and utilities expenses in the statements of revenues, expenses and changes in net position as of June 30, 2013 and 2012. The Commonwealth leases approximately 286,000 square feet at 100 Cambridge Street. The lease expires January 31, 2054. Rental income for M/SBRC was approximately $9.2 million and $9.3 million for fiscal years 2013 and 2012, respectively, and is included in M/SBRC and other income in the statements of revenues, expenses and changes in net position. The payment of ground rent and ground rent interest is subordinate to payments of operating expenses and debt service and funding of project reserves.

The Agency also leases office space in Boston and Devens, Massachusetts and various other cities for regional offices throughout Massachusetts. Rent expense for the years ended June 30, 2013 and 2012 for the Boston office space was approximately $1.2 million and $1.1 million, respectively. Rent expense for the years ended June 30, 2013 and 2012 for the Devens office space was approximately $414,000 and $409,000, respectively.

The Agency's Bond Issuance Program assisted in the issuance of taxable and tax-exempt bonds and lease transactions on behalf of client institutions through its bond financing program on 99 projects aggregating $2.3 billion during fiscal year 2013 and 98 projects aggregating $3.2 billion during fiscal year 2012. The Agency also completed 3 and 1 pool loan transactions for approximately $28.0 million and $9.7 million during fiscal years 2013 and 2012, respectively. (the closings during fiscal year 2013 were recycling of funds, not additional funding). These debt obligations are conduit transactions and do not constitute a debt or liability of the Agency, therefore, these financing transactions are not included in the accompanying consolidated financial statements. The Agency has earned bond issuance fee revenues related to these financings of approximately $6.8 million and $5.3 million, in fiscal years 2013 and 2012, respectively, and are included as a component of bond issuance and new markets tax credit fees in the statements of revenues, expenses and changes in net position.

On January 1, 2007, the Devens Electric Utility Division entered into a five year power supply agreement in which the Devens Electric Utility Division will purchase and Morgan Stanley will sell a certain mega watt hour amount of energy in each on-peak hour and off-peak hour every month. On April 16, 2009, a second contract was entered into with Morgan Stanley for additional power supply. The Morgan Stanley power supply agreements expired on April 30, 2012. A new power supply agreement began with Exelon on May 1, 2012 and runs through December 31, 2014. The Exelon power supply agreement provides for the Electric System to purchase electric energy in monthly on-peak and off-peak blocks at agreed upon prices. The Electric System purchases approximately 60% of electric energy requirements from Constellation Energy and the balance is purchased on a real time basis directly from NEPOOL at the market price.

The Agency has concluded that the contracts noted above are not subject to GASB 53, *Accounting and Financial Reporting for Derivative Instruments*. The hedging contracts notes above entered into by the Devens Electric Utility Division are considered normal purchases and sales contracts for utilities as part of the ongoing operations of the Devens Electric Utility Division. These activities would be subject to the exclusion provided for in GASB 53 and not required as derivative instruments.

The Devens Electric Utility System has also entered into an Operation and Maintenance Agreement with the town of Wellesley for the management and operation of the Electric System. The current agreement expires March 31, 2019.

11. Bonds Payable

The following is a summary of the Agency's bonds payable activity for the years ended June 30:

	Weighted Average Interest Rate at June 30, 2013	June 30, 2012	Additions	Principal Payments/ Amortization	June 30, 2013	Current Portion
Electric System Utility Bond	3.38%	$ 8,145,000	$ -	$ (340,000)	$ 7,805,000	$ 345,000
M/SBRC Redevelopment Revenue Bonds	5.45%	165,810,000	-	(2,900,000)	162,910,000	2,350,000
		173,955,000	-	(3,240,000)	170,715,000	2,695,000
Plus						
Premium		14,475	-	(1,191)	13,284	-
Less						
Electric System Utility Bonds Discount		(20,206)	-	3,128	(17,078)	-
M/SBRC Redevelopment Bonds Discount		(1,541,270)	-	105,931	(1,435,339)	-
		$ 172,407,999	$ -	$ (3,132,132)	$ 169,275,867	$ 2,695,000

	Weighted Average Interest Rate at June 30, 2012	June 30, 2011	Additions	Principal Payments/ Amortization	June 30, 2012	Current Portion
Electric System Utility Bond	4.54%	$ 8,775,000	$ 8,145,000	$ (8,775,000)	$ 8,145,000	$ 340,000
M/SBRC Redevelopment Revenue Bonds	5.43%	166,810,000	-	(1,000,000)	165,810,000	2,900,000
		175,585,000	8,145,000	(9,775,000)	173,955,000	3,240,000
Plus						
Premium		15,664	-	(1,189)	14,475	-
Less						
Electric System Utility Bonds Discount		(62,546)	(22,204)	64,544	(20,206)	-
M/SBRC Redevelopment Bonds Discount		(1,647,201)	-	105,931	(1,541,270)	-
		$ 173,890,917	$ 8,122,796	$ (9,605,714)	$ 172,407,999	$ 3,240,000

Electric System Utility Bond
During fiscal 2001, the Agency issued Electric System Revenue Bonds, Series 2001 for the Devens project which totaled approximately $10.6 million. The Series 2001 Bonds were used to finance the design, construction, installation and associated costs of certain capital improvements to the Electric System at Devens.

In an effort to lower the weighted average interest rate on the bonds, the Agency refunded the bonds in December 2011 and issued Devens Electric System Refunding Revenue Bonds, Series 2011 ("Series 2011 Bonds"). Principal of $8,775,000 was repaid in relation to the Series 2011 Bonds and new principal of $8,145,000 was refunded.

The Series 2011 Bonds are collateralized by a pledge of the Electric System's revenues and certain funds and accounts established under the bond. The Series 2011 Bonds carry a long-term Standard & Poor's rating of A. The credit rating was upgraded from A- to A as part of the refunding of the bonds during fiscal year 2012. Total principal and interest remaining on the bonds is approximately $10,765,883, payable through June 30, 2031. For the current fiscal year, principal and interest paid was $609,356 and total funds and accounts and revenues of the Devens Electric Utility System were $1,220,334 and $13,128,355, respectively.

The bond documents require the maintenance of certain funds of the Project. Below are certain funds balances as of June 30, 2013 and 2012:

- The Revenue Fund had balances of $1.0 million and $0.9 million, respectively. All revenues generated by the Electric System, exclusive of interest income, are deposited into the Revenue Fund. Funds are transferred from the Revenue Fund to other funds of the Electric System according to the bond resolution agreement.

- The Capital Upgrade Reserve Fund had balances of $4.0 million and $3.6 million, respectively. The Capital Upgrade Reserve Fund may be used to fund capital improvements to the Electric System. In fiscal year 2013 $696,373 of excess funds from the Revenue Fund were transferred into the Capital Upgrade Reserve Fund. In fiscal year 2013 and 2012, $0.3 million and $0.2 million, respectively, was used for electrical infrastructure improvements at Devens.

- The Rate Stabilization Reserve Fund had balances of $2.4 million and $3.3 million, respectively. The Rate Stabilization Reserve Fund may be used to fund operating expenses of the Electric System when there are not sufficient funds available from operations.

The Agency may transfer funds from the Capital Upgrade Reserve Fund to the Revenue Fund. Excess balances in the Revenue Fund may be transferred to the Agency, free and clear of the lien of the bond resolution, if all funding requirements are met and the debt service coverage requirement of 1.5 has been met, cumulatively, during the twelve consecutive months prior to the transfer date. During fiscal year 2013, $917,238 was transferred to the wastewater utility division of the Agency to fund future wastewater capital improvements and to reduce debt. During fiscal year 2012, $5.4 million was transferred from the Revenue Fund to the Devens water utility division of the Agency for future water system capital improvements.

Principal payments are due annually through 2030. Interest expense related to this bond was $269,356 and $397,969 for the years ended June 30, 2013 and 2012, respectively.

The Devens Electric System Utility Bond agreement requires the maintenance of a minimum debt service coverage ratio. Failure to comply with the minimum debt service covenant does not constitute a default, as long as the Agency complies with specific requirements included in the agreement. As of June 30, 2013 and 2012, the necessary debt service coverage was met.

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

The Bonds were issued in the following series:

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

The M/SBRC Redevelopment Revenue Bond agreement provides for, among other requirements, the maintenance of a minimum senior debt service coverage ratio and certain other covenants. As of June 30, 2013 and 2012, the necessary debt service coverage ratio was met.

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

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

The bond documents require the maintenance of certain funds of the Project. Below are certain funds balances included in cash and cash equivalents-restricted for use as of June 30, 2013 and 2012:

- The Replacement Reserve Fund had balances of $1.0 million and $0.9 million, respectively. This account is funded each month based on rented square feet at M/SBRC. These funds will be used to fund tenant improvements when tenants vacate space.

- The Project Reserve Fund had a balance of $9.0 million and $7.4 million, respectively. This account is funded each month through the flow of funds when there is sufficient revenue, as determined by the Agreement, and is to be used to pay operating expenses if Project revenues are not sufficient.

- The Debt Service Reserve Fund had a balance of $13.3 million. This account, originally funded with bond proceeds, is a reserve account that will be used to pay debt service if cash flows of the Project are insufficient to pay required debt service payments.

- The Commonwealth Tenant Improvement Fund had a balance of $2.1 million, respectively. These funds are used to fund tenant improvements related to the Commonwealth of Massachusetts leased space.

Interest expense related to this bond was approximately $10.5 million and $10.6 million for the fiscal years ended June 30, 2013 and 2012, of which approximately $2.3 million is unpaid as of June 30, 2013 and 2012, respectively. The Agency has recorded an interest payable for this amount.

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

Fiscal Year	Principal	Interest	Total Debt Service
2014	$ 2,695,000	$ 8,965,904	$ 11,660,904
2015	4,350,000	8,759,869	13,109,869
2016	5,055,000	8,495,599	13,550,599
2017	4,960,000	8,219,160	13,179,160
2018	5,670,000	7,918,111	13,588,111
2019-2023	33,555,000	34,344,693	67,899,693
2024-2028	45,040,000	22,781,761	67,821,761
2029-2033	56,630,000	8,800,157	65,430,157
2034	12,760,000	27,248	12,787,248
	$ 170,715,000	$ 108,312,502	$ 279,027,502

The Series 2002A and Series 2002B Bonds are subject to redemption prior to maturity at the option of the borrower.

12. Interest Rate Swap

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

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

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

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

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

The fair value of the Swap had an unrealized negative fair value of approximately $15.9 million and $21.6 million as of June 30, 2013 and 2012, respectively. In accordance with GASB 53, *Accounting and Financial Reporting for Derivative Instruments,* the $15.9 million and $21.6 million deferral of possible future payments relating to the unrealized negative fair value is shown as a deferred outflow interest rate swap asset in the Corporation's statement of net position as of June 30, 2013 and 2012, respectively. The offsetting $15.9 million and $21.6 million unrealized negative fair value of the Swap is shown as an interest rate swap liability in the Corporation's statement of net position as of June 30, 2013 and 2012, respectively.

The fair value of the Swap at June 30, 2013 and 2012 was developed by a third party consultant and is based upon confirmation transactional information, including the notional amortization schedules contained therein, comparing the rate on the Swap with market rates on the valuation date and taking the present value of the differential between the Swap and market rates back to the valuation date using accepted market discount rates for the each respective amortization date involved.

Credit Risk

The Swap relies upon the performance of the Counterparty, and as a result the Corporation is exposed to credit risk, or the risk that the Counterparty fails to perform according to its contractual obligations. On October 3, 2008, the Counterparty filed for bankruptcy. The Corporation has continued to pay its obligations in accordance with the Agreement. The Corporation is continuing to research an appropriate plan of action. The final outcome and impact of this matter is currently unknown.

Interest Rate Risk

The Corporation pays the bondholders variable interest payments of LIBOR plus 30 basis points and receives variable Swap payments of LIBOR plus 30 basis points from the Counterparty and pays the Counterparty a fixed rate of 6.747% with respect to the $69,650,000 portion of the Swap. The Corporation is unhedged against interest rates in excess of LIBOR greater than 6.447% due to the Counterparty's bankruptcy.

Basis Risk

The Corporation pays the bondholders variable interest payments of LIBOR plus 30 basis points and receives variable Swap payments of LIBOR plus 30 basis points from the Counterparty and pays the Counterparty a fixed rate of 6.747% with respect to the $69,650,000 portion of the Swap. As of June 30, 2013 and 2012 the rates of LIBOR plus 30 basis points was 0.5741% and 0.76585%, respectively.

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

13. Advances from the Commonwealth of Massachusetts

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

	2012	Repayments	2013	Current Portion
Massachusetts Dept. of Environmental Protection	$ 11,360,614	$ (437,658)	$ 10,922,956	$ 454,756
Devens-municipal services	3,750,000	(3,750,000)	-	-
	$ 15,110,614	$ (4,187,658)	$ 10,922,956	$ 454,756

During the year ended June 30, 1998, the Massachusetts Department of Environmental Protection ("DEP") approved loans to the Agency. In addition, The Massachusetts Water Abatement Trust ("MWAT") issued loans to the Agency. Collectively, these loans were advanced to construct a wastewater treatment facility at Devens. These loans are being paid back to the trust through revenues generated from wastewater usage at Devens and surrounding communities. These loans are part of a pooled loan program bond within the MWAT. The Agency and the Commonwealth have entered into a contract providing that the Commonwealth shall pay contract assistance on behalf of the Agency with respect to partial debt service on these loans. Repayment of the loans began on February 1, 2002. The loans mature in August 2024 and February 2031. Interest expense related to these loans was $565,272 and $597,717 for the years ended June 30, 2013 and 2012, respectively.

The MWAT loan agreement requires the maintenance of an adequate annual debt service coverage ratio. As of June 30, 2013, the necessary debt service coverage was met. As of June 30, 2012, the necessary debt service coverage was not met, however failure to comply with the annual debt service coverage ratio does not constitute a default, as long as the Agency complies with specific requirements included in the agreement. In September 2012, the Agency funded the shortfall necessary to bring the ratio into compliance.

The scheduled principal and interest payments on the DEP loans at June 30, 2013, are as follows:

Fiscal Year	Principal	Interest	Total Debt Service
2014	$ 454,756	$ 538,719	$ 993,475
2015	471,891	524,439	996,330
2016	488,053	496,532	984,585
2017	504,651	468,020	972,671
2018	526,250	435,051	961,301
2019-2023	2,896,826	1,646,269	4,543,095
2024-2028	3,355,523	761,583	4,117,106
2029-2031	2,225,006	185,764	2,410,770
	$ 10,922,956	$ 5,056,377	$ 15,979,333

In June of 1997 the Agency received a one-time grant of approximately $3.8 million for administration and provision of municipal services at Devens. Management has had conversations with the Commonwealth regarding this liability and the Commonwealth has verbally confirmed that the funds are not due to the Commonwealth, therefore, the $3.8 million was re-classified as contributions from the Commonwealth of Massachusetts in the statement of revenues, expenses and changes in net position as of June 30, 2013.

14. Other Related Party Transactions

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

The Agency oversees the management and development of the State Fish Pier (the "Pier") facilities, which are leased to the Agency by the Department of Environmental Management, Office of Waterways (representing The Commonwealth of Massachusetts), on behalf of the Bureau of Coastal Engineering. The Pier reimburses the Agency for salaries and other direct costs paid by the Agency, which amounted to $172,647 and $181,441 for the years ended June 30, 2013 and 2012, respectively. The Agency incurred $43,642 and $54,184 for the years ended June 30, 2013 and 2012, respectively, of staff time for which the Agency billed the Pier.

The Agency also oversees management services for Cape Ann Fisheries Development Corporation ("Cape Ann"), a non-profit corporation formed for construction and management of a multi-tenant seafood processing facility at the State Fish Pier in Gloucester. In fiscal year 2001, the Agency provided two loans to Cape Ann in the amounts of $2.3 million and $500,000 for construction expenses and remediation of environmental conditions at the seafood processing facility. In fiscal year 2013 these loans were refinanced into four separate notes (Notes A and B for each loan). The balance on the Notes A loans receivable, net of allowance for loan loss, as of June 30, 2013 was $672,034 and $186,590, respectively. The Agency wrote off Notes B during fiscal year 2013 as they were deemed uncollectible. The balance of these loans receivable as of June 30, 2012 was $0 as the Agency had fully reserved the notes.

In September 2009, the Agency refinanced another Cape Ann loan in the amount of $2.7 million. The Agency wrote off this loan during fiscal year 2013 as it was deemed uncollectible. The balance on this loan receivable, net of allowance for loan loss, was $1,024,025 as of June 30, 2012.

The Agency donated approximately $37,709 and $33,359 of Agency staff time and $30,467 and $8,639 of Pier staff time and direct costs to Cape Ann during fiscal years 2013 and 2012, respectively. These donated costs covered management services provided to Cape Ann during the fiscal year.

The Agency is eligible to receive an administrative fee of up to 0.09% of the average daily assets of the Short-Term Asset Reserve Fund ("Star Fund"). The STAR Fund is an investment fund that is managed like a money market fund and invests in short-term, high-quality securities, and is available for the investment of bond proceeds of the Agency's client institutions. The STAR Fund is designed to preserve principal, provide daily liquidity, and earn a high level of income. The Agency's Star Fund holdings held on its own account as of June 30, 2013 and 2012, were approximately $2.4 million and $6.4 million, respectively, and are included in cash and cash equivalents in the Consolidated Balance Sheets. During the years ended June 30, 2013 and 2012, the Agency received administrative fees of $180,530 and $247,871, respectively, from the STAR Fund. The administrative fees are reported in bond issuance and New Markets Tax Credit fees in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

15. Benefit Plans

The Agency contributed approximately $1.3 million and $1.2 million to employee benefit plans described below during the years ended June 30, 2013 and 2012, respectively.

Deferred Compensation Plan

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

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

Effective December 31, 1997, Section 401(a) of the Internal Revenue Code was amended by Section 1448 of the Small Business Job protection Act of 1996 which provides that governmental deferred compensation plans must hold all assets and income of the plan in trust for the exclusive benefit of participants and their beneficiaries. In accordance with the legislation described above, the vested assets and associated liability of the deferred compensation plan assets are not included in the statements of net position.

401(a) Defined Contribution Plan

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

The Agency may make loans up to 50% of a participant's vested accrued balance in the 401(a) account. Otherwise, the vested balance is not available to employees until termination, retirement, permanent disability, or death.

The unvested portion of the 401(a) plan is recorded as an asset on the statements of net position. The total unvested portion of the 401(a) plan as of June 30, 2013 and 2012 was approximately $200,000 and $248,000, respectively.

In 1998, Massachusetts Government Land Bank ("Land Bank") and Massachusetts Industrial Finance Agency ("MIFA") merged to create the Agency. Prior to this merger, all Land Bank employees were participants in the State Plan; MIFA employees were not. All former Land Bank employees were given the option to stay in the State Plan or take part in the retirement plans being offered by the Agency. Any new employees hired after the merger were not eligible to participate in the State Plan, except for the union firefighters at Devens. The State Plan provides benefits including retiree health benefits to qualifying retirees. The programs are carried out by the Commonwealth. There are currently 26 employees in the State Plan. Neither the Land Bank nor the Agency have ever been charged for post-retirement benefits for its current employees or its retirees from the Commonwealth Group Insurance Commission. The Agency's management has reviewed the requirements of GASB 45 *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions ("OPEB")*, and believes the Agency is not liable for OPEB costs for current active or retired employees due to the following: there is no statutory requirement holding the Agency liable for OPEB costs; the Agency has never been billed by the Group Insurance Commission for any OPEB costs; and it is the legal opinion of the Agency's outside attorney that no evidence exists that indicates that the Agency is liable for these costs.

16. Segment Reporting

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

The Devens Electric Utility Division restated its fiscal year 2012 beginning net position by a reduction of $189,491 due to the implementation of GASB 65, *Items Previously Reported as Assets and Liabilities,* during fiscal year 2013. Deferred financing costs were retroactively fully amortized due to the implementation.

Summary financial information for the Devens Electric Utility Division is presented below:

Statements of Net Position as of June 30:

	2013	2012 (As restated)
Assets		
Current assets	$ 2,946,465	$ 2,966,485
Due from Massachusetts Development Finance Agency	60,655	-
Noncurrent assets	6,578,382	7,097,438
Capital assets, net	18,151,544	19,398,982
Total assets	27,737,046	29,462,905
Liabilities and Net Assets		
Current liabilities	1,325,297	1,312,559
Due to Massachusetts Development Finance Agency	-	80,681
Noncurrent liabilities	7,442,922	7,784,794
Total liabilities	8,768,219	9,178,034
Net position		
Net investment in capital assets	10,567,574	11,712,816
Restricted	8,401,253	8,572,055
Total net position	18,968,827	20,284,871
Total liabilities and net position	$ 27,737,046	$ 29,462,905

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

	2013	2012 (As restated)
Operating revenues	$ 12,964,988	$ 14,646,671
Operating expenses	11,879,099	13,105,547
Depreciation	1,375,428	1,323,686
Operating income	(289,539)	217,438
Nonoperating expenses, net	(151,903)	(731,821)
Grant income	42,636	-
Interfund transfer to Devens Wastewater Utility Division Fund	(917,238)	-
Interfund transfer to Devens Water Utility Division Fund	-	(5,400,000)
Decrease in net position	(1,316,044)	(5,914,383)
Net position at beginning of year	20,284,871	26,199,254
Net position at end of year	$ 18,968,827	$ 20,284,871

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

	2013	2012
Net cash provided by operating activities	$ 1,148,999	$ 1,577,204
Net cash used in capital and related financing activities	(1,632,768)	(6,959,108)
Net cash provided by/(used in) investing activities	10,659	(15,382)
Net decrease in cash and cash equivalents	(473,110)	(5,397,286)
Cash and cash equivalents at beginning of year	8,042,079	13,439,365
Cash and cash equivalents at end of year	$ 7,568,969	$ 8,042,079

MassDevelopment/Saltonstall Building Redevelopment Corporation
A separate financial statement for M/SBRC is published and is available upon request.

On May 2, 2002, the Agency issued bonds for a total of approximately $195.8 million to fund the construction of the Project, of which $162.9 million and $165.8 million is outstanding as of June 30, 2013 and 2012, respectively. The Agency loaned M/SBRC $20.0 million for the development of the Project, which is still outstanding as of June 30, 2013 and 2012, along with $24.5 million and $22.9 million, respectively, of accrued interest. This Agency loan, including interest accrued, is eliminated in the Agency financial statements. The Agency is not obligated to fund any operating deficiencies incurred by M/SBRC.

M/SBRC restated its fiscal year 2012 beginning net position by a reduction of approximately $9.0 million due to the implementation of GASB 65, *Items Previously Reported as Assets and Liabilities,* during fiscal year 2013. Deferred financing costs and deferred expenses were retroactively fully amortized due to the implementation.

Summary financial information for M/SBRC is presented below:

Statements of Net Position as of June 30:

	2013	2012 (As restated)
Assets		
Current assets	$ 3,324,869	$ 3,529,559
Noncurrent assets	32,263,229	30,427,334
Capital assets, net	113,236,048	117,371,065
Total assets	148,824,146	151,327,958
Deferred Outflows of Resources		
Deferred outflow-interest rate swap	15,943,560	21,643,394
Liabilities		
Current liabilities	6,467,688	6,877,093
Due to Massachusetts Development Finance Agency	24,543,034	22,943,032
Massachusetts Development Finance Agency note payable-current	20,000,000	20,000,000
Noncurrent liabilities	175,068,221	183,012,124
Total liabilities	226,078,943	232,832,249
Net position		
Net investment in capital assets	(32,712,301)	(31,371,572)
Restricted	5,176,238	5,087,626
Unrestricted	(33,775,174)	(33,576,951)
Total net position	(61,311,237)	(59,860,897)
Total liabilities and net position	$ 164,767,706	$ 172,971,352

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

	2013	2012 (As restated)
Operating revenues	$ 22,710,393	$ 22,247,084
Operating expenses	10,314,775	9,695,076
Depreciation and amortization	4,034,458	4,056,287
Operating income	8,361,160	8,495,721
Nonoperating expenses, net	(9,811,500)	(9,928,357)
Decrease in net position	(1,450,340)	(1,432,636)
Net position - beginning of the year	(59,860,897)	(58,428,261)
Net position - end of the year	$ (61,311,237)	$ (59,860,897)

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

	2013	2012
Net cash provided by operating activities	$ 12,641,416	$ 12,675,488
Net cash used in capital and related financing activities	(11,832,104)	(10,060,443)
Net cash provided by investing activities	773,990	773,477
Net increase in cash and cash equivalents	1,583,302	3,388,522
Cash and cash equivalents at beginning of year	19,994,802	16,606,280
Cash and cash equivalents at end of year	$ 21,578,104	$ 19,994,802

17. New Markets Tax Credit Program

The Agency has accounted for its 0.01% ownership interests in the NMTC entities using the equity method of accounting. The total amount invested in these NMTC entities was $19,127 and $21,572 as of June 30, 2013 and 2012, respectively.

As part of the closing of the NMTC entities, the Agency receives sub-allocation fees from the capitalized funds and such fees are included in bond issuance and New Markets Tax Credit fees in the statement of revenues, expenses and changes in net position as of June 30, 2013 and 2012. The Agency receives such fees as organizational fees for structuring and organizing the sub-allocation of the new markets tax credits of the NMTC entities. The sub-allocation fees recognized during fiscal years 2013 and 2012 were $361,021 and $1,205,359, respectively.

The Agency receives an annual management fee for services related to managing the operations of the NMTC entities, including accounting, legal, management, technical and other services, as needed by the NMTC entities. Total management fees earned for fiscal years 2013 and 2012 was $982,681 and $941,196, respectively. As of June 30, 2013 and 2012, management fees of $658,239 and $514,886, respectively, remains unpaid to the Agency, and is included in accounts receivable and other assets on the Consolidated Balance Sheets.

The Agency also receives loan servicing fees from MassDevelopment New Markets CDE #1, LLC ("CDE#1") for loan processing services the Agency provides to CDE #1. In fiscal years 2013 and 2012, the Agency earned $59,513 and $61,834, respectively for these services. All amounts were paid to the Agency as of June 30, 2013 and 2012.

The Agency may, from time to time, loan operating cash to the NMTC entities for professional services and be reimbursed at a later date. As of June 30, 2013 and 2012, $171,300 and $484,400, respectively, remains unpaid to the Agency. Four NMTC entities also hold $782,000 in an escrow account as security for the Agency's obligations as manager of the entities. These amounts are included in accounts receivable and other assets on the statements of net position.

18. Legal Matters

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

On or about March 31, 2011, Evergreen Solar Inc. ("EVS") shut down its manufacturing facility located at 112 Barnum Road, Devens. This shut down created a default under the ground lease between the Agency and EVS for the property located at 112 Barnum Road and resulted in the loss of the benefits granted under the terms of the First Amended and Restated Tax Increment Financing Agreement and created a default under the Project Grant Agreement. All of these agreements were originally entered into by the Agency and EVS, and dated as of November 20, 2007. On August 15, 2011, EVS filed for bankruptcy. The parties were in negotiations with EVS regarding all of these agreements and amounts due to the Agency at the time of the bankruptcy filing. During fiscal year 2012, the Agency entered into a bankruptcy court approved settlement agreement with EVS, which resulted in a payment to the Agency in the amount of $5,276,750 as full and final settlement of the matters arising out of the agreements. This amount was applied as follows:

$2,670,000	Land sale to EVS (112 Barnum Road)
1,501,605	FY2011 real estate taxes
828,395	Grant proceeds
276,750	Land sale Lot 2A (parking parcel)
$5,276,750	

The $2,670,000 is related to the land sale at 112 Barnum Road and the $276,750 is related to the parking lot sale and both are included in gains on sale of real estate, net in the June 30, 2012 statements of revenues, expenses and changes in net position. The $1,501,605 is related to fiscal year 2011 real estate taxes owed to the Agency. This amount relieved an outstanding receivable that was included in accounts receivable and other assets in the statements of net position at June 30, 2011. The $828,395 is the Agency's recovery of prior grant disbursements made by the Agency to EVS. This amount is included in other operating income to offset operating expenses that were not recoverable from EVS due to its bankruptcy in the June 30, 2012 statements of revenues, expenses and changes in net position.

19. Restatement of Balances

The Agency restated fiscal year 2012 beginning net position by $9,359,297 due to the implementation of GASB 65, *Items Previously Reported as Assets and Liabilities*, during fiscal year 2013. Deferred financing costs of $7,355,141 and deferred expenses of $2,004,156 were retroactively fully amortized due to the implementation.

20. Subsequent Events

Management has evaluated subsequent events through November 15, 2013, the date the financial statements were available for issuance, noting no material events to disclose.

Massachusetts Development Finance Agency
Supplemental Information
June 30, 2013
(unaudited)

Statements of Departmental Net Position

	General Operations	Brownfield Redevelopment	Emerging Technology	Cultural Facilities	Mortgage Insurance	Charitable Trust	Charter School Facilities	Devens	Devens Electric Utility Division	Devens Gas, Water, Wastewater Utility Divisions	Other	M/SBRC	Taunton Corp.	Eliminations	Total
Assets															
Current assets	$ 37,176,272	$ 25,378,692	$ 18,952,553	$ 6,875,644	$ 7,299,818	$ 1,645,164	$ 11,536,684	$ 26,073,391	$ 3,007,120	$ 5,082,134	$ 6,815,204	$ 3,324,869	$ 1,493,967	$ (3,909,190)	$ 150,752,322
Noncurrent assets	157,176,037	2,988,105	9,126,491	-	(117,553)	9,840,791	(145,217)	9,695,923	6,578,382	5,004,432	1,169,970	32,263,229	-	(33,797,505)	199,783,085
Capital assets, net	16,856,433	-	-	-	-	-	-	47,707,670	18,151,544	36,933,250	-	113,236,048	6,852,219	(510,664)	239,226,500
Total assets	211,208,742	28,366,797	28,079,044	6,875,644	7,182,265	11,485,955	11,391,467	83,476,984	27,737,046	47,019,816	7,985,174	148,824,146	8,346,186	(38,217,359)	589,761,907
Deferred outflows of resources															
Deferred outflow interest rate swap	-	-	-	-	-	-	-	-	-	-	-	15,943,560	-	-	15,943,560
Total assets and deferred outflows	211,208,742	28,366,797	28,079,044	6,875,644	7,182,265	11,485,955	11,391,467	83,476,984	27,737,046	47,019,816	7,985,174	164,767,706	8,346,186	(38,217,359)	605,705,467
Liabilities															
Current liabilities	3,429,156	1,122,687	559,011	1,419,542	(24,025)	110	(24,965)	(1,331,968)	1,325,297	1,418,528	1,113,963	6,670,905	1,563,081	(1,774,214)	15,467,108
Noncurrent liabilities	1,259,025	391,833	3,125	959,993	164,088	-	29,270	3,176,359	7,442,922	22,279,611	10,588	219,408,038	1,993,018	(60,546,318)	196,571,552
Total liabilities	4,688,181	1,514,520	562,136	2,379,535	140,063	110	4,305	1,844,391	8,768,219	23,698,139	1,124,551	226,078,943	3,556,099	(62,320,532)	212,038,660
Net position															
Net investment in capital assets	16,856,433	-	-	-	-	-	-	47,766,510	10,567,574	25,997,010	-	(32,712,301)	4,859,200	1,457,354	74,791,780
Restricted	210,268	26,852,277	27,516,908	4,496,109	7,042,202	11,485,845	11,387,162	33,866,083	8,401,253	(2,675,333)	6,462,459	5,176,238	(69,113)	2,576,209	142,728,567
Unrestricted	189,453,860	-	-	-	-	-	-	-		-	398,164	(33,775,174)	-	20,069,610	176,146,460
Total net position	206,520,561	26,852,277	27,516,908	4,496,109	7,042,202	11,485,845	11,387,162	81,632,593	18,968,827	23,321,677	6,860,623	(61,311,237)	4,790,087	24,103,173	393,666,807
Total liabilities and net position	$ 211,208,742	$ 28,366,797	$ 28,079,044	$ 6,875,644	$ 7,182,265	$ 11,485,955	$ 11,391,467	$ 83,476,984	$ 27,737,046	$ 47,019,816	$ 7,985,174	$ 164,767,706	$ 8,346,186	$ (38,217,359)	$ 605,705,467

Statements of Departmental Revenues, Expenses and Changes in Net Position

	General Operations	Brownfield Redevelopment	Emerging Technology	Cultural Facilities	Mortgage Insurance	Charitable Trust	Charter School Facilities	Devens	Devens Electric Utility Division	Devens Gas, Water, Wastewater Utility Divisions	Other	M/SBRC	Taunton Corp.	Eliminations	Total
Operating revenues	$ 19,799,830	$ 68,478	$ 498,400	$ 803	$ 181,662	$ 6,472	$ 24,448	$ 9,385,057	$ 12,964,988	$ 10,759,668	$ 103,134	$ 22,710,393	$ 408,321	$ (2,631,483)	$ 74,280,171
Operating expenses	27,804,059	2,088,670	1,899,800	522,385	244,115	54,004	106,660	15,490,259	13,254,527	10,627,516	664,713	14,349,233	262,472	(5,806,777)	81,561,636
Operating income/(loss)	(8,004,229)	(2,020,192)	(1,401,400)	(521,582)	(62,453)	(47,532)	(82,212)	(6,105,202)	(289,539)	132,152	(561,579)	8,361,160	145,849	3,175,294	(7,281,465)
Nonoperating revenues/(expenses)	292,006	85,950	70,206	24,081	1,017	38,368	42	40,293	(151,903)	(140,049)	3,779	(9,811,500)	(39,255)	1,706,578	(7,880,387)
Capital contributions/(distributions)	(441,715)	(5,407,576)	-	(1,115,480)	-	(246,561)	-	5,755,975	(874,602)	917,238	(83,462)	-	4,304,758	(2,842,977)	(34,402)
Increase/(decrease) in net position	(8,153,938)	(7,341,818)	(1,331,194)	(1,612,981)	(61,436)	(255,725)	(82,170)	(308,934)	(1,316,044)	909,341	(641,262)	(1,450,340)	4,411,352	2,038,895	(15,196,254)
Net position-beginning of year	214,674,499	34,194,095	28,848,102	6,109,090	7,103,638	11,741,570	11,469,332	81,941,527	20,284,871	22,412,336	7,501,885	(59,860,897)	378,735	22,064,278	408,863,061
Net position-end of year	$ 206,520,561	$ 26,852,277	$ 27,516,908	$ 4,496,109	$ 7,042,202	$ 11,485,845	$ 11,387,162	$ 81,632,593	$ 18,968,827	$ 23,321,677	$ 6,860,623	$ (61,311,237)	$ 4,790,087	$ 24,103,173	$ 393,666,807

Massachusetts Development Finance Agency
Supplemental Information
June 30, 2012
(unaudited)

Statements of Departmental Net Position
(As restated)

	General Operations	Brownfield Redevelopment	Emerging Technology	Cultural Facilities	Mortgage Insurance	Charitable Trust	Charter School Facilities	Devens	Devens Electric Utility Division	Devens Gas, Water, Wastewater Utility Divisions	Other	M/SBRC	Taunton Corp.	Eliminations	Total
Assets															
Current assets	$ 41,882,191	$ 32,278,315	$ 26,404,365	$ 9,209,426	$ 7,265,170	$ 2,830,066	$ 11,574,660	$ 30,958,780	$ 2,966,485	$ 5,160,948	$ 6,707,811	$ 3,529,559	$ 280,943	$ (1,402,372)	$ 179,646,347
Noncurrent assets	160,459,123	2,720,203	2,578,215	-	(58,422)	8,927,745	(115,540)	13,308,540	7,097,438	5,762,537	1,172,492	30,427,334	-	(41,564,198)	190,715,467
Capital assets, net	17,242,310	-	-	-	-	-	-	48,818,056	19,398,982	38,838,001	-	117,371,065	709,597	(510,664)	241,867,347
Total assets	219,583,624	34,998,518	28,982,580	9,209,426	7,206,748	11,757,811	11,459,120	93,085,376	29,462,905	49,761,486	7,880,303	151,327,958	990,540	(43,477,234)	612,229,161
Deferred outflows of resources															
Deferred outflow interest rate swap	-	-	-	-	-	-	-	-	-	-	-	21,643,394	-	-	21,643,394
Total assets and deferred outflows	219,583,624	34,998,518	28,982,580	9,209,426	7,206,748	11,757,811	11,459,120	93,085,376	29,462,905	49,761,486	7,880,303	172,971,352	990,540	(43,477,234)	633,872,555
Liabilities															
Current liabilities	3,455,083	412,590	128,228	930,947	15,197	16,241	(19,274)	(807,931)	1,393,240	3,042,408	370,290	7,080,310	205,353	(1,290,186)	14,932,496
Noncurrent liabilities	1,454,042	391,833	6,250	2,169,389	87,913	-	9,062	11,951,780	7,784,794	24,306,742	8,128	225,751,939	406,452	(64,251,326)	210,076,998
Total liabilities	4,909,125	804,423	134,478	3,100,336	103,110	16,241	(10,212)	11,143,849	9,178,034	27,349,150	378,418	232,832,249	611,805	(65,541,512)	225,009,494
Net position															
Invested in capital, net of related debt	17,242,310	-	-	-	-	-	-	45,126,896	11,712,816	27,462,912	-	(31,371,572)	468,696	(269,763)	70,372,295
Restricted	252,167	34,194,095	28,848,102	6,109,090	7,103,638	11,741,570	11,469,332	36,814,631	8,572,055	(5,050,576)	7,101,263	5,087,626	(89,961)	7,723,470	159,876,502
Unrestricted	197,180,022	-	-	-	-	-	-	-	-	-	400,622	(33,576,951)	-	14,610,571	178,614,264
Total net position	214,674,499	34,194,095	28,848,102	6,109,090	7,103,638	11,741,570	11,469,332	81,941,527	20,284,871	22,412,336	7,501,885	(59,860,897)	378,735	22,064,278	408,863,061
Total liabilities and net position	$ 219,583,624	$ 34,998,518	$ 28,982,580	$ 9,209,426	$ 7,206,748	$ 11,757,811	$ 11,459,120	$ 93,085,376	$ 29,462,905	$ 49,761,486	$ 7,880,303	$ 172,971,352	$ 990,540	$ (43,477,234)	$ 633,872,555

Statements of Departmental Revenues, Expenses and Changes in Net Position
(As restated)

	General Operations	Brownfield Redevelopment	Emerging Technology	Cultural Facilities	Mortgage Insurance	Charitable Trust	Charter School Facilities	Devens	Devens Electric Utility Division	Devens Gas, Water, Wastewater Utility Divisions	Other	M/SBRC	Taunton Corp.	Eliminations	Total
Operating revenues	$ 17,801,587	$ 55,818	$ 261,759	$ -	$ 115,831	$ -	$ 12,530	$ 11,658,404	$ 14,646,671	$ 11,091,405	$ 82,414	$ 22,247,084	$ 42,521	$ (1,067,283)	$ 76,948,741
Operating expenses	21,660,819	884,096	3,338,249	669,879	184,098	53,599	140,499	12,513,088	14,429,233	10,918,713	282,240	13,751,363	34,346	(1,213,599)	77,646,623
Operating income/(loss)	(3,859,232)	(828,278)	(3,076,490)	(669,879)	(68,267)	(53,599)	(127,969)	(854,684)	217,438	172,692	(199,826)	8,495,721	8,175	146,316	(697,882)
Nonoperating revenues/(expenses)	1,064,801	73,046	54,914	18,162	-	100,784	13	(57,966)	(731,821)	(168,387)	3,511	(9,928,357)	(6,104)	1,739,182	(7,838,222)
Capital contributions/(distributions)	(4,204,420)	(4,301,163)	-	(3,067,148)	-	(248,649)	-	1,553,603	(5,400,000)	5,400,000	-	-	376,664	(385,965)	(10,197,078)
Increase/(decrease) in net position	(6,998,851)	(5,056,395)	(3,021,576)	(3,718,865)	(68,267)	(201,464)	(127,956)	640,953	(5,914,383)	5,404,305	(196,315)	(1,432,636)	378,735	1,579,533	(18,733,182)
Net position-beginning of year	221,673,350	39,250,490	31,869,678	9,827,955	7,171,905	11,943,034	11,597,288	81,300,574	26,199,254	17,008,031	7,698,200	(58,428,261)	-	20,484,745	427,596,243
Net position-end of year	$ 214,674,499	$ 34,194,095	$ 28,848,102	$ 6,109,090	$ 7,103,638	$ 11,741,570	$ 11,469,332	$ 81,941,527	$ 20,284,871	$ 22,412,336	$ 7,501,885	$ (59,860,897)	$ 378,735	$ 22,064,278	$ 408,863,061

MassDevelopment FY13 Business Plan Goals

GOAL	ACTION	MEASUREMENT
1. Create and retain jobs	Provide financing and real estate services	For finance and real estate projects: # of construction jobs; # permanent jobs;# of jobs by region; # jobs in Gateway Cities; # existing jobs at projects financed
2. Strengthen and champion economically-challenged communities including Gateway Cities	Provide financing and real estate services	# of projects & $ invested in Gateway Cities; # of projects & $ invested in Economically Distressed Areas (EDAs)
3. Build out Devens and move it toward self-sustainability.	Increase sources of revenue and manage/reduce expenses	Square Feet of new development constructed; % infrastructure complete for full buildout; Total $ invested; % reduction in annual deficit; growth in total assessed valuation.
4. Provide access to capital for businesses and non-profits throughout the Commonwealth	Continue to review programs and adjust to respond to current Borrower needs; Pursue strategic partnerships and alternative financing structures to increase MassDevelopment's resources and lending capacity	# of financings; Total $ invested; track by Regions & by sector
5. Work with federal, state, local, nonprofit, and private partners to strengthen the Commonwealth's defense sector.	Work with Military Asset and Security Task Force to develop operational efficiency improvement plans and master plans for the installations. Increase small business access to defense contracts. Work with DTI and Hanscom AFB to institute pilot programs on rapid acquisitions and Other Transition Agreements.	Task force subcommitees created and workplans developed; # plans developed or studies completed for bases. Prime and sub contractor event; use of pilot program.
6. Support manufacturing	Participate in the Commonwealth's Advanced Manufacturing Collaborative (AMC) specifically Access to Capital & Promoting Manufacturing working groups. (2.4.3) Provide financing programs for manufacturers through tax-exempt bonds, General Fund & Emerging Technology Fund.	# of manufacturing Projects financed and $ invested; financial support for manufacturing initiatives; participate in AMC events & meetings.

7. Support innovation and entrepreneurship		
	Increase and measure funding for early-stage entrepreneurs and small business. (2.1.3).	
	Increase number of interns (2.2.1).	# interns at MassDevelopment; # informational e-mails to MassDevelopment borrowers re internships & resources
	Increase production of rental housing in high-market demand areas near centers of innovation and entrepreneurial activity (2.2.2).	# new rental units financed
	Support growth of small- and mid-sized businesses.(2.4.1)	# loans for expansion of businesses
	Facilitate adoption of local innovations into small and mid-size businesses and manufacturers (2.4.1 and 2.4.3).	
8. Support regional development through infrastructure investments and local empowerment		
	Identify priority development sites for job and housing growth through regional planning efforts (3.1.1).	Promote regional priority setting through academies; participate in interagency permitting task force
	Provide targeted assistance to accelerating development within identified priority areas (3.1.3).	# projects assisted in priority areas; # 43(d) projects assisted
MassDevelopment is the Owner of this Priority:	Encourage cities and towns to participate in structured process for implementing local economic develop strategies (3.2.1).	# Cities and towns completing structured self assessment process; % of cities and towns in Commonwealth completing assessments
MassDevelopment is the Owner of this Priority:	Run economic development academies throughout the Commonwealth (3.3.1).	# academies; # in each region
	Provide technical assistance to cities and towns.	# TAPs in partnership with ULI-Boston; # municipal technical assistance projects
	Develop or redevelop critical surplus public properties.	# projects and sq. footage developed at surplus properties

9. Increase the ease of doing business in the Commonwealth		
	Work with MMP and MassEcon to expand ambassadors program (4.3.1).	# of ambassadors and the annual increase in the number of ambassadors.
	Showcase development-ready sites with information on business and housing costs (4.3.4).	Link MassDevelopment web site to MassEcon Market Ready sites
	Encourage & promote streamlined permitting in Devens and other cities and towns.	# of regional academies promoting streamlined permitting; # communities assisted with permitting process issues
	Keep MDFA web site fresh & user friendly.	track # hits, #clicks
10. Address Massachusetts cost competiveness.		
	Fund use of e-health technologies through Tech Dollars program (5.1.3).	# loans
	Use a portion of HEFA charitable trust funds to make community health centers more efficient.	$ granted for community health center efficiency improvements
	Create more housing of varied types.	# housing units financed or developed at MassDevelopment projects including Devens
	Encourage the business use of Commercial net metering at Devens	# businesses with on-site energy generation
	Increase renewables as part of Devens Electric utility mix	% increase in renewables

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