

# 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](mailto:Anne.Struthers@state.ma.us).

### 1) AGENCY INFORMATION

<b>Agency Name</b>	Massachusetts Growth Capital Corporation
<b>Agency Head</b>	<b>Charles T. Grigsby</b>
<b>Title</b>	<b>President</b>
<b>Website</b>	<a href="http://www.massgcc.com">www.massgcc.com</a>
<b>Address</b>	529 Main Street, Suite 1M10, Charlestown, MA 02129

## 2) MISSION STATEMENT

Please include the Mission Statement for your organization below.

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

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

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

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

## 3) PERFORMANCE 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.

## 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	\$3,002,262	
Expenditures	\$2,868,728	
Assets	\$51,310,617	
Liabilities	\$1,707,854	

## 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:

Turnaround Management Assistance

## 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:

Please see Loan Details Spreadsheet

## 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:

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

## 8) OTHER FORMS OF FINANCING OR FINANCIAL ASSISTANCE?

If your agency provides any other form of financing or financial assistance, please include 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:

N/A

## 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:

N/A

## 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:

**Small Business Assistance Grant Program**



## ATTACHMENT A

### PERFORMANCE ON GOALS AND OBJECTIVES

Our FY '13 goals were purposefully aggressive and meant to stretch our efforts. MGCC increased in all areas, while not reaching some, and exceeding other specific metrics.

A.) Increasing availability of working capital to promote growth of small businesses.

The **GOAL** was to increase loans by over 20 % to \$24,000,000 in originations

The **RESULT** was a 37% increase from \$14,500,000 to \$19,900,000 in originations.

B.) Strengthen network of micro-lenders statewide

The **GOAL** was to originate \$2,000,000 in loans to intermediaries

During the year it became apparent the focus of our efforts needed to change to direct micro-loans. The **RESULT** was 16 direct loans to microloan borrowers and to intermediaries, totaling \$1,215,000.

C.) Employ targeted management assistance to increase success rate of small businesses

The **GOAL** was to provide targeted management assistance to 40 companies.

The **RESULT** was management assistance provided to 39 companies

D.) Increase rate of job creation by small businesses

The **GOAL** was to target 1500 new jobs created by portfolio companies.

Due to uncertainties in the larger economy, job preservation became a revised focus.

Many of the 1,585 jobs in new borrowers were at risk, and job preservation became the goal.

Nevertheless, MGCC expects that 557 new jobs will **RESULT** from loans made in FY '13

E.) Increase the number of banks with which MGCC participates

The **GOAL** was to increase the number of our bank participants by 54 % to 40.

The **RESULT** was an increase of 65 % to 43 bank partners.



**GENERAL PURPOSE FINANCIAL STATEMENTS  
IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS AND  
OMB CIRCULAR A-133  
JUNE 30, 2013 AND 2012  
TOGETHER WITH  
INDEPENDENT AUDITOR'S REPORT**

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

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JUNE 30, 2013 AND 2012**

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*Where Every Client is a Valued Client*

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

Independent Auditor's Report

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

**Report on the General Purpose Financial Statements**

We have audited the accompanying general purpose financial statements of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC) which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues and expenses, changes in net position and cash flows for the years then ended, and the related notes to the general purpose financial statements.

***Management's Responsibility for the General Purpose Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the general purpose financial statements referred to on page one present fairly, in all material respects, the financial position of Massachusetts Growth Capital Corporation as June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

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

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the general purpose financial statements as a whole. The accompanying supplementary information on pages 18 through 21 for the years ended June 30, 2013 and 2012, is presented for additional analysis and is not a required part of the general purpose financial statements. Also, the accompanying schedule of expenditures of federal awards for the year ended June 30, 2013, is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the general purpose financial statements. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the general purpose financial statements or to the general purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 18 through 21 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the general purpose financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report October 10, 2013, on our consideration of MGCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MGCC's internal control over financial reporting and compliance.



Boston, Massachusetts  
October 10, 2013

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013 AND 2012

Our discussion and analysis of Massachusetts Growth Capital Corporation's (MGCC) financial performance provides an overview of MGCC's financial activities for the year ended June 30, 2013. Please read it in conjunction with MGCC's general purpose financial statements, which begin on page 6.

#### **Basic Financial Statements**

The financial activities for the year ended June 30, 2013, are included in a series of financial statements. In accordance with Governmental Accounting Standard Board standard, *Basic Financial Statement-Management's Discussion and Analysis for State and Local Governments*, MGCC is considered a quasi-public entity that engages in only business-type activities. In accordance with this standard, MGCC issues a Statement of Net Position, a Statement of Revenues and Expenses, a Statement of Changes in Net Position, and a Statement of Cash Flows. These statements provide information about the financial activities of MGCC as a whole. Combining schedules showing the consolidation of specific restricted funds are included as supplemental information, presented on pages 18 through 21.

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

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

MGCC operates on a June 30th fiscal year basis.

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

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

(Continued)

**Statements of Net Position, Revenues and Expenses and Changes in Net Position** (Continued)

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

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

Transfer funding from the former EST included:

**Federal Title IX Revolving Loan Fund #1:** The fund was capitalized in fiscal year 1993 with a \$2,000,000 grant from the Economic Development Administration of the U.S. Department of Commerce (EDA). Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000. On December 6, 2011, MGCC received final approval to transfer the EDA RLF grants to MGCC.

**Federal Title IX Revolving Loan Fund #2:** The fund was capitalized in fiscal year 1998 with a \$2,000,000 grant from EDA. Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000. On December 6, 2011, MGCC received final approval to transfer the EDA RLF grants to MGCC.

**SBA Revolving Loan Fund:** The fund was capitalized in fiscal years 2004 and 2005 for a total of \$200,000 from the U.S. Small Business Administration for the purpose of funding a micro-loan program. A contractual match of 15% was provided by the former EST. On August 8, 2012, MGCC paid off the balance of the SBA loan and also received permission to close the Citizens Bank Accounts.

**State Small Business Credit Initiative:** On September 27, 2010, the President of the United States signed into law the "*Small Business Jobs Act of 2010*" to help increase credit availability for small businesses. The Act created the State Small Business Credit Initiative (SSBCI) and appropriated \$1.5 billion. Massachusetts' allocation is approximately \$22 million, of which approximately \$14 million is allocated for MGCC. In fiscal years 2013 and 2012, MGCC received \$3,483,018 and \$1,090,266, respectively, with a receivable at June 30, 2013, of \$4,644,024. The balance of the funding will be disbursed through 2017. MGCC has matched the principal of these loans on a 50/50 basis.

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

## MASSACHUSETTS GROWTH CAPITAL CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

(Continued)

#### Condensed Financial Information

**Assets total \$51,310,617. The major components are:**

**Cash and Cash Equivalents:** MGCC began the fiscal year with a total of \$25,646,367 in cash. At June 30, 2013, total cash was \$24,570,576, of which \$1,336,224 was restricted. The decrease in cash of \$1,075,791 was due to an increase in expenses and loan activity in the SSBCI fund.

**Loans Receivable:** Loan receivables at June 30, 2013, totaled \$26,795,246, a net increase of \$377,568 from the previous year. During the fiscal year, MGCC received \$11,920,349 in principal repayments, including \$4,671,006 in early payoffs and closed 45 loans and guarantees totaling \$13,016,602.

In the prior fiscal year, principal repayments totaled \$6,940,514, with 36 loans and guarantees closed totaling \$10,220,133.

The loan loss reserve decreased \$781,455 to \$5,160,793. The decrease was due to a change in the loan loss rating policy; mainly, no reserve amounts for loans rated 1, 2 or 3 as was done in prior years and a decrease in the percentage reserved for loans rated 5 to 40% from 90%. The rating changes were made to better conform to historically reported data.

**SSBCI Receivable:** The \$4,714,764 represents the 2<sup>nd</sup> tranche of funding due in 2013.

**Liabilities total \$1,707,854. The major components are:**

**Surety Bond Program:** In fiscal year 2010, the former MCDFC was awarded a grant of \$2 million from the Commonwealth. The program was to facilitate the participation of minority contractors, woman contractors and small contractors in the American Recovery and Reinvestment Act (ARRA) - funded construction projects. On September 23, 2011, MGCC was informed by the Secretary for Administration and Finance that the balance of funds would remain with MGCC and that a new contract and scope of services would be issued to govern the use of funds.

**Technical Assistance, Capacity Building and Educational Program:** On April 3, 2012, MGCC signed a new contract for the use of the old Surety Bond Program funds. The new Technical Assistance, Capacity Building and Educational Program targets minority and women construction contractors and minority and woman professional services (design and engineering) firms; provided that, access to the Program shall be open to any small business that meets the participation criteria. A total of \$550,000 was funded through fiscal year 2013 to pay for a program to be operated by Next Street which was selected after a review and rating by an independent review committee. The balance of the funds at June 30, 2013, was \$1,336,224 and is shown as special program escrow.

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

**Accounts Payable, Accrued Payroll and Pension, and Other Accruals:** Accounts payable and accrued expenses at June 30, 2013, totaled \$161,718 compared to \$150,110 for the prior year. The increase of \$11,608 was in accounts payable.

**Note Payable SBA:** On May 5, 2003, the former EST received a loan of \$200,000 from the micro-loan program. The note was for ten years, with a variable interest rate of .875% to 2.875%, based on the average size of the loans made. The balance of \$41,959 as of June 30, 2012, was paid off on July 25, 2012.

# MASSACHUSETTS GROWTH CAPITAL CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013 AND 2012

(Continued)

### Condensed Financial Information (Continued)

**Revenues:** Operating revenues for the year ended June 30, 2013, totaled \$3,002,262, compared to \$2,936,448 for the prior year, a net increase of \$65,814. This increase was due to an increase in portfolio interest income, loan fees and management fees totaling \$116,654 and offset by a decrease in money market interest income and other income of \$53,162.

**Expenses:** Operating expenses for the year ended June 30, 2013, totaled \$2,868,728, compared to \$2,518,940 for the prior year, a net increase of \$349,788. The major components of the increase were payroll at \$212,231, health insurance \$39,343, pension expense \$22,940, and technical assistance of \$59,892. Payroll and pension were higher due to an increase of employees from 18 to 20, health insurance due to one new enrollee and an increase in premiums, and technical assistance due to demand and a new in-house program, Tools to Grow.

### Analysis of Significant Variations between Original and Budgeted Amounts

Revenues ended the year less than the budget by \$304,000. This variance consisted primarily of \$350,000 off budget for interest income from the loan portfolio (referenced next paragraph). The modest shortfall from loan fees of \$18,000 and money market interest of \$21,000 was offset by management and service fees of \$77,000 not budgeted for.

Our overall loan portfolio ended the year at \$26,795,000, a net increase of \$377,000 from last year's ending balance of \$26,418,000 versus a budgeted decrease of \$10,902,000 for a total budget variance of \$10,525,000. However, the \$10.5 million variance was generated by unanticipated early payoffs of approximately \$5 million and another \$4.5 million in holdbacks. Also, approximately \$2.4 million in loans committed during the fiscal year were closed in July. Without the early payoffs, holdbacks and delayed closings, the budget variance would have been an increase of \$1,075,000.

Total actual operating expenses were less than the budgeted amounts by \$309,000. A summary of the major variances are as follows: payroll and fringe benefits were over estimated by a total of \$235,000, largely attributed to a decision to delay hiring two credit analyst until half way through the fiscal year and with one of the positions to be a junior analyst at a significantly lower salary. Medical insurance, as part of the fringe, was also over estimated by approximately \$61,000, primarily due to the difference in the employee census and coverage required.

Legal expenses were under budget by approximately \$90,000, largely due to reimbursements of legal costs of approximately \$56,000 by borrowers and a favorable budget variance of approximately \$34,000. The budgeted amount for technical assistance was \$150,000, however, \$30,000 of that amount was transferred to the grant program in the form of ten \$3,000 grants to small business assistance programs to help grantees measure outcome. After this transfer, actual costs were in line with the new budget.

MGCC had net non-operating items that added \$3,920,000 to the overall positive impact of total changes in net position when compared to the budget amount of \$1,729,024. The variance is due to the new loan ratings which eliminated the need to increase the reserve by the budgeted amount of \$2 million.

MGCC issued \$725,000 in grants for the year ended June 30, 2013, compared to the \$700,000 budgeted, and will continue the grants through fiscal year 2014. MGCC recorded the receivable for the 2<sup>nd</sup> tranche of SSBCI funds for fiscal year 2014.

### **Subsequent Events:**

Since year end, a total of \$4,065,000 of new loans and guaranties were funded to 13 companies. Additionally, approximately \$4,215,000 in new loans and guaranties has been committed to 12 companies. De-commitments totaled \$1,690,000.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

**STATEMENTS OF NET POSITION  
JUNE 30, 2013 AND 2012**

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 23,234,352	\$ 22,705,203
Restricted cash	1,336,224	2,941,164
Accounts receivable	4,774,991	1,191,005
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$940,000 and \$1,225,000 at June 30, 2013 and 2012, respectively	3,940,703	4,219,712
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$285,000 and \$239,000 at June 30, 2013 and 2012, respectively	243,562	235,204
Prepaid expenses and other	<u>72,071</u>	<u>65,970</u>
Total current assets	33,601,903	31,358,258
<b>LOANS RECEIVABLE</b> , net of current portion and allowance for uncollectible loans of approximately \$4,220,000 and \$4,717,000 at June 30, 2013 and 2012, respectively	17,693,750	16,255,718
<b>PROPERTY AND EQUIPMENT</b> , net	<u>14,964</u>	<u>31,394</u>
Total assets	<u><u>\$ 51,310,617</u></u>	<u><u>\$ 47,645,370</u></u>
 <b><u>LIABILITIES AND NET POSITION</u></b>		
<b>CURRENT LIABILITIES:</b>		
Note payable	\$ -	\$ 41,959
Accounts payable and accrued expenses	161,718	150,110
Advances	209,912	211,642
Special program escrow liability	<u>1,336,224</u>	<u>1,692,895</u>
Total current liabilities	<u>1,707,854</u>	<u>2,096,606</u>
<b>NET POSITION:</b>		
Restricted - State Small Business Credit Initiative	9,401,876	4,778,174
Restricted - Federal Title IX RLF	1,374,197	1,251,257
Restricted by enabling legislation	<u>38,826,690</u>	<u>39,519,333</u>
Total net position	<u>49,602,763</u>	<u>45,548,764</u>
Total liabilities and net position	<u><u>\$ 51,310,617</u></u>	<u><u>\$ 47,645,370</u></u>

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

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

**STATEMENTS OF REVENUES AND EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES:</b>		
Interest income on loans	\$ 2,267,971	\$ 2,232,412
Management and other fees	540,619	461,610
Interest income on cash reserves	182,784	209,927
Other revenue	<u>10,888</u>	<u>32,499</u>
Total operating revenues	<u>3,002,262</u>	<u>2,936,448</u>
<b>OPERATING EXPENSES:</b>		
Employee compensation	2,232,124	1,954,061
Professional fees	252,912	267,542
Occupancy	130,614	107,600
Moving expenses	34,368	-
Advertising	26,934	13,127
Travel	25,329	17,219
Other expenses	23,198	19,962
Supplies	22,645	12,771
Telephone	21,571	16,606
Depreciation	16,430	26,544
Credit reports	14,699	1,716
Insurance	13,314	12,285
Information technology	13,151	28,964
Meetings	12,442	10,555
Maintenance and repair	11,252	8,363
Printing and postage	10,211	13,400
Dues and memberships	7,088	6,956
Interest	<u>446</u>	<u>1,269</u>
Total operating expenses	<u>2,868,728</u>	<u>2,518,940</u>
Changes in net position from operations before loan loss recovery (provision)	133,534	417,508
<b>LOAN LOSS RECOVERY (PROVISION)</b>	<u>1,441</u>	<u>(3,640,924)</u>
Changes in net position from operations	<u>134,975</u>	<u>(3,223,416)</u>
<b>NON-OPERATING REVENUE (EXPENSE):</b>		
State appropriation	4,644,024	4,644,024
Grant expense	<u>(725,000)</u>	<u>(1,100,000)</u>
Total non-operating revenue (expense)	<u>3,919,024</u>	<u>3,544,024</u>
Changes in net position	<u>\$ 4,053,999</u>	<u>\$ 320,608</u>

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

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

**STATEMENTS OF CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

<b>NET POSITION</b> , June 30, 2011	\$ 45,228,156
Changes in net position	<u>320,608</u>
<b>NET POSITION</b> , June 30, 2012	45,548,764
Changes in net position	<u>4,053,999</u>
<b>NET POSITION</b> , June 30, 2013	<u><u>\$ 49,602,763</u></u>

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

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

**STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013 AND 2012**

	<u><b>2013</b></u>	<u><b>2012</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts of interest income	\$ 2,381,068	\$ 2,423,402
Receipts of management fees and other	510,391	533,731
State appropriation	1,090,266	3,483,018
Other revenue	10,888	32,499
Employee compensation	(2,232,994)	(1,929,902)
Interest payments to lenders	(446)	(1,269)
Payments for supplies and services	(613,351)	(736,350)
Grant expense	(725,000)	(1,100,000)
	<u>420,822</u>	<u>2,705,129</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Loans disbursed	(13,016,602)	(9,835,117)
Proceeds from loan repayments	11,920,349	6,940,514
Interest earned on special program escrows	-	5,214
Special program disbursement	(356,671)	(250,000)
Advances	(1,730)	(80,578)
Acquisition of property and equipment	-	(5,236)
	<u>(1,454,654)</u>	<u>(3,225,203)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of principal of notes payable	(41,959)	(38,759)
	<u>(41,959)</u>	<u>(38,759)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,075,791)	(558,833)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>25,646,367</u>	<u>26,205,200</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 24,570,576</u>	<u>\$ 25,646,367</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net position	\$ 4,053,999	\$ 320,608
Adjustments to reconcile changes in net position to net cash provided by operating activities:		
Depreciation	16,430	26,544
Loan loss (recovery) provision	(1,441)	3,640,924
Changes in operating assets and liabilities:		
Accounts receivable	(3,583,986)	(1,073,886)
Accrued interest receivable	(69,687)	(199,286)
Prepaid expenses and other	(6,101)	(32,370)
Accounts payable and accrued expenses	11,608	22,595
	<u>\$ 420,822</u>	<u>\$ 2,705,129</u>

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

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**

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

**OPERATIONS AND NONPROFIT STATUS**

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

**SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation – GASB Standards

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

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

Loans Receivable and Allowance for Uncollectible Loans

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

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consist of checking, money market and savings accounts. Also included in cash and cash equivalents at June 30, 2012, is \$55,765 of cash held by another component unit of the Commonwealth incident to the formation of MGCC as described on page 10. These accounts were closed during fiscal year 2013.

Restricted Cash

Restricted cash includes the remaining cash from the Small Business Administration and Federal Title IX RLF Funds and the cash related to a special program escrow (see Note 8).

Advertising Costs

MGCC expenses advertising costs as they are incurred.

Revenue Recognition

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

Property and Equipment and Depreciation

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

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

Estimates

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

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Classification of Net Position

MGCC's financial resources are restricted as follows:

**State Small Business Credit Initiative** - The fund was capitalized in fiscal year 2012 with funds received from the Commonwealth. MGCC is to receive \$13,932,072 over a three-year period (see Note 11). MGCC has matched the principal of these loans on a 50/50 basis. Total funds earned to date were \$9,288,048. The net position balance was \$9,401,876 and \$4,778,174 as of June 30, 2013 and 2012, respectively.

**Federal Title IX Revolving Loan Fund (RLF) #1** - The fund was capitalized in 1993 with a \$2,000,000 grant from the Economic Development Administration of the U.S. Department of Commerce (EDA). Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000. In December, 2011, MGCC received final approval to transfer the EDA RLF grants to MGCC. The net position balance was \$635,290 and \$619,086 as of June 30, 2013 and 2012, respectively.

**Federal Title IX Revolving Loan Fund (RLF) #2** - The fund was capitalized in fiscal year 1998 with a \$2,000,000 grant from EDA. Additionally, a contractual match of \$667,000 was initially provided by the former EST, for a total capitalization of \$2,667,000. In December, 2011, MGCC received final approval to transfer the EDA RLF grants to MGCC. The net position balance was \$738,907 and \$632,171 as of June 30, 2013 and 2012, respectively.

**Restricted by Enabling Legislation** - The remaining net positions are deemed restricted in accordance with GASB for purposes included within Chapter 40W, MGCC's enabling legislation. The net position balance was \$38,826,690 and \$39,519,333 as of June 30, 2013 and 2012, respectively.

Subsequent Events

Subsequent events have been evaluated through October 10, 2013, which is the date the general purpose financial statements were available to be issued. See Note 12 for subsequent event disclosure.

Fair Value Measurements

MGCC follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and mandate disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Guarantees

MGCC may issue guarantees to public or private entities for the purpose of causing such entities to provide financing to a business. A collateral requirement on the guarantees is determined on an individual basis by MGCC's Board of Directors. As of June 30, 2013 and 2012, MGCC had five and two outstanding guarantees with values of \$1,290,000 and \$1,450,000, respectively. These guarantees will expire at various times through June, 2014.

Massachusetts Municipal Depository Trust Investments

MGCC holds investments in the Massachusetts Municipal Depository Trust (MMDT) in the amount of \$3,692,277 and \$6,543,645 at June 30, 2013 and 2012, respectively. MMDT is an investment program, founded in 1977 under the supervision of the State Treasurer of the Commonwealth, in which municipalities may pool excess cash for investment. MMDT was established to provide professionally managed investment funds to meet the investment needs of the Commonwealth and its political subdivisions. MGCC invests in MMDT's Cash Portfolio and Short-Term Bond Fund and these investments are considered to be cash and cash equivalents.

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

<b><u>Securities With an Effective Maturity of:</u></b>	<b><u>Percentage of Total Net Position</u></b>	
	<b><u>2013</u></b>	<b><u>2012</u></b>
1 - 30 Days	40.4%	37.0%
31 - 90 Days	39.1	29.8
91 - 180 Days	15.5	21.4
181 - Days or more	<u>5.0</u>	<u>11.8</u>
Total	<u>100.0%</u>	<u>100.0%</u>

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

**(2) PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$152,752	\$152,752
Leasehold improvements	-	10,326
	<u>152,752</u>	<u>163,078</u>
Less - accumulated depreciation	<u>137,788</u>	<u>131,684</u>
Net property and equipment	<u>\$ 14,964</u>	<u>\$ 31,394</u>

**(3) LOANS RECEIVABLE**

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

There were 125 and 115 loans receivable outstanding at June 30, 2013 and 2012, respectively. Loans receivable are stated net of allowance for losses as follows at June 30:

	<u>2013</u>	<u>2012</u>
Principal outstanding	\$26,795,246	\$26,417,678
Less - allowance for loan losses (see Note 4)	<u>(5,160,793)</u>	<u>(5,942,248)</u>
Loans receivable, net	<u>\$21,634,453</u>	<u>\$20,475,430</u>

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

2014	\$4,880,738
2015	\$4,672,073
2016	\$4,101,375
2017	\$3,270,418
2018	\$2,040,321

**(4) ALLOWANCES FOR LOSSES**

MGCC provides allowances for expected loan and interest losses (see Notes 1 and 3). The allowances are based on MGCC's loan rating policy, which is updated periodically for changes related to individual loans receivable.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

**(4) ALLOWANCES FOR LOSSES** (Continued)

The loan and interest loss allowances consist of the following as of June 30:

	<u>2013</u>		<u>2012</u>	
	<u>Loans</u>	<u>Interest</u>	<u>Loans</u>	<u>Interest</u>
Balance, beginning of year	\$5,942,248	\$238,832	\$3,145,822	\$161,012
Net provision for losses	(62,770)	61,329	3,475,574	165,350
Write-offs	<u>(718,685)</u>	<u>(15,397)</u>	<u>(679,148)</u>	<u>(87,530)</u>
Balance, end of year	<u>\$5,160,793</u>	<u>\$284,764</u>	<u>\$5,942,248</u>	<u>\$238,832</u>

**(5) DEFERRED COMPENSATION AND RETIREMENT PLANS**

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

MGCC maintains an additional social security replacement plan for employees. This plan is eligible to all employees upon commencement of employment. MGCC makes monthly contributions equal to 11.2% of each participant's monthly compensation from inception of employment. Employees are immediately vested in the plan upon commencement of employment. Contributions made for the years ended June 30, 2013 and 2012, were \$198,062 and \$175,122, respectively, and are included in employee compensation in the accompanying statements of revenues and expenses.

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

Lending and Guarantees

Commitments to originate loans are agreements to lend money, provided that there are no violations of any conditions established in the agreements. MGCC evaluates each request for financing on a case-by-case basis, including, but not limited to, eligibility as established by Chapter 40W of the Massachusetts General Laws, credit worthiness, collateral obtained, and any other prevailing economic factors. Once these commitments are made, MGCC is also subject to a degree of off-balance sheet risk, as MGCC has committed funds to an entity and such commitment is not recorded on the statements of net position as a liability. The performance of these entities could adversely affect the ability of MGCC to recover the committed investment. At June 30, 2013 and 2012, MGCC had commitments to lend of approximately \$11.5 million and \$7.2 million, respectively (see Note 3).

MGCC had commitments for guarantees of approximately \$200,000 at June 30, 2012 (see page 13).

Facility Lease

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

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

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

Facility Lease (Continued)

Monthly rent payments under this agreement range from \$13,445 to \$15,946. Rent expense was \$116,766 and \$107,600 for the years ended June 30, 2013, and 2012, respectively, and is included in occupancy in the statements of revenues and expenses.

MGCC also has short-term agreements to lease office space in Worcester and Springfield, Massachusetts. Monthly rent payments for these commitments totaled \$643.

Future minimum payments under these lease obligations are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2014	\$166,964
2015	\$174,468
2016	\$181,972
2017	\$189,476
2018	\$ 47,838

**(7) CONCENTRATION OF CREDIT RISK**

MGCC maintains its cash and cash equivalents balances in seven banks in Massachusetts and is insured within limits of the Federal Deposit Insurance Corporation (FDIC). At certain times, cash balances exceeded the insured amounts. As of June 30, 2013 and 2012, MGCC's exposure for uninsured funds was approximately \$23,630,000 and \$22,433,000, respectively. MGCC has not experienced any losses in such accounts and management believes the credit risk related to MGCC's cash and cash equivalents is not significant.

**(8) SPECIAL PROGRAM ESCROW**

Technical Assistance, Capacity Building and Educational

MGCC entered into an agreement with the Executive Office of Administration and Finance (A & F) to manage a Technical Assistance, Capacity Building and Educational Program. This program is targeted to minority and women construction contractors and minority and women professional services firms. The program will be conducted for three years and will be divided into two groups; Tier I for firms with revenues under \$1,000,000 and Tier II for those firms with revenues under \$5,000,000. Upon the conclusion of the program, A & F reserves the right to either request that unexpended funds are returned to the Commonwealth, or allow MGCC to retain any unexpended fund. Accordingly, the balance of these funds is presented as a liability in the accompanying statements of net position and totaled \$1,336,224 and \$1,692,895 as of June 30, 2013 and 2012, respectively.

By agreement with A & F, MGCC will receive an annual fee between \$60,000 and \$65,000 to operate this program. For the years ended June 30, 2013 and 2012, MGCC has earned \$60,000 and \$15,000, respectively, of fees.

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**JUNE 30, 2013 AND 2012**  
(Continued)

**(9) NOTE PAYABLE**

Note payable as of June 30, 2012, consisted of a U.S. Small Business Administration (SBA) loan for the purpose of funding the SBA micro-loan program. The loan accrued interest at a variable rate through the life of the loan based on the aggregate amount of loans made to borrowers under this program (1.9% at June 30, 2012). This note was secured by the micro-loans and was paid off during fiscal year 2013. The note payable balance as of June 30, 2012, was \$41,959. Interest expense was \$446 and \$908 for the years ended June 30, 2013 and 2012, respectively.

**(10) ADVANCES**

Advances consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Collateral for financing arrangements:		
Greener Group	\$190,987	\$190,693
DKA Realty, Inc.	<u>18,925</u>	<u>20,949</u>
Total	<u>\$209,912</u>	<u>\$211,642</u>

**(11) CONDITIONAL GRANT**

The Commonwealth has awarded MGCC a \$13,932,072 grant, of which \$4,644,024 was earned for the years ended June 30, 2013 and 2012. At June 30, 2013, MGCC has received \$4,573,284 of the amount earned, and accordingly, \$4,714,764 is included in accounts receivable in the accompanying statement of net position. The balance of the grant of \$4,664,024 is conditional upon MGCC meeting certain benchmarks in accordance with the grant terms. Accordingly, this amount is not reflected in the accompanying general purpose financial statements at June 30, 2013.

**(12) SUBSEQUENT EVENT**

On October 10, 2013, MGCC received a commitment from a bank for a revolving line of credit in the amount of \$10 million. The line of credit will bear interest at the bank's prime lending rate (3.25% as of June 30, 2013) and will mature on December 31, 2015.

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL STATEMENT OF NET POSITION  
JUNE 30, 2013

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

MASSACHUSETTS GROWTH CAPITAL CORPORATION

SUPPLEMENTAL STATEMENT OF NET POSITION  
JUNE 30, 2012

<u>ASSETS</u>	<u>MGCC</u>	<u>STATE SMALL BUSINESS CREDIT INITIATIVE</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #1</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #2</u>	<u>SBA REVOLVING LOAN FUND</u>	<u>TOTAL</u>
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 22,705,203	\$ -	\$ -	\$ -	\$ -	\$ 22,705,203
Restricted cash	1,692,895	1,192,760	-	-	55,509	2,941,164
Accounts receivable	29,999	1,161,006	-	-	-	1,191,005
Current portion of loans receivable, net of allowance for uncollectible loans of approximately \$1,225,000	3,392,136	385,484	226,186	209,201	6,705	4,219,712
Accrued interest receivable on loans, net of allowance for uncollectible amounts of approximately \$239,000	156,907	9,788	8,729	59,618	162	235,204
Prepaid expenses and other	65,970	-	-	-	-	65,970
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	28,043,110	2,749,038	234,915	268,819	62,376	31,358,258
<b>LOANS RECEIVABLE</b> , net of current portion and allowance for uncollectible loans of approximately \$4,717,000	12,163,351	2,004,135	821,266	1,249,068	17,898	16,255,718
<b>PROPERTY AND EQUIPMENT</b> , net	31,394	-	-	-	-	31,394
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 40,237,855</u>	<u>\$ 4,753,173</u>	<u>\$ 1,056,181</u>	<u>\$ 1,517,887</u>	<u>\$ 80,274</u>	<u>\$ 47,645,370</u>
 <b><u>LIABILITIES AND NET POSITION</u></b>						
<b>CURRENT LIABILITIES:</b>						
Note payable	\$ -	\$ -	\$ -	\$ -	\$ 41,959	\$ 41,959
Accounts payable and accrued expenses	150,110	-	-	-	-	150,110
Interfund (receivable) payable	(1,347,190)	(25,001)	437,095	885,716	49,380	-
Advances	211,642	-	-	-	-	211,642
Special program escrow liability	1,692,895	-	-	-	-	1,692,895
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	707,457	(25,001)	437,095	885,716	91,339	2,096,606
 <b>NET POSITION:</b>						
Restricted - State Small Business Credit Initiative	-	4,778,174	-	-	-	4,778,174
Restricted - Federal Title IX RLF	-	-	619,086	632,171	-	1,251,257
Restricted by enabling legislation	39,530,398	-	-	-	(11,065)	39,519,333
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total net position	39,530,398	4,778,174	619,086	632,171	(11,065)	45,548,764
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 40,237,855</u>	<u>\$ 4,753,173</u>	<u>\$ 1,056,181</u>	<u>\$ 1,517,887</u>	<u>\$ 80,274</u>	<u>\$ 47,645,370</u>

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>MGCC</u>	<u>STATE SMALL BUSINESS CREDIT INITIATIVE</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #1</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #2</u>	<u>SBA REVOLVING LOAN FUND</u>	<u>TOTAL</u>
<b>OPERATING REVENUES:</b>						
Interest income on loans	\$ 1,442,106	\$ 573,178	\$ 109,411	\$ 143,276	\$ -	\$ 2,267,971
Management and other fees	235,344	278,725	7,325	19,225	-	540,619
Interest income on cash reserves	177,032	5,752	-	-	-	182,784
Other revenue	10,388	500	-	-	-	10,888
	<u>1,864,870</u>	<u>858,155</u>	<u>116,736</u>	<u>162,501</u>	<u>-</u>	<u>3,002,262</u>
Total operating revenues						
<b>OPERATING EXPENSES:</b>						
Employee compensation	2,039,876	51,644	66,456	74,148	-	2,232,124
Professional fees	238,572	-	2,555	11,785	-	252,912
Occupancy	120,382	-	4,491	5,741	-	130,614
Moving expenses	31,568	-	1,288	1,512	-	34,368
Advertising	24,467	-	1,165	1,302	-	26,934
Travel	23,230	807	658	634	-	25,329
Other expenses	20,066	1,468	749	915	-	23,198
Supplies	20,767	-	804	1,074	-	22,645
Telephone	19,973	-	688	910	-	21,571
Depreciation	14,555	-	818	1,057	-	16,430
Credit reports	13,678	-	533	488	-	14,699
Insurance	12,251	-	466	597	-	13,314
Information technology	11,928	-	517	706	-	13,151
Meetings	11,336	-	491	615	-	12,442
Maintenance and repair	10,460	-	342	450	-	11,252
Printing and postage	9,639	-	240	332	-	10,211
Dues and memberships	6,682	-	166	240	-	7,088
Interest	446	-	-	-	-	446
	<u>2,629,876</u>	<u>53,919</u>	<u>82,427</u>	<u>102,506</u>	<u>-</u>	<u>2,868,728</u>
Total operating expenses						
Changes in net position from operations before loan loss recovery (provision)	(765,006)	804,236	34,309	59,995	-	133,534
<b>LOAN LOSS RECOVERY (PROVISION)</b>	<u>432,343</u>	<u>(459,538)</u>	<u>(18,105)</u>	<u>46,741</u>	<u>-</u>	<u>1,441</u>
Changes in net position from operations	(332,663)	344,698	16,204	106,736	-	134,975
<b>NON-OPERATING REVENUE (EXPENSE):</b>						
State appropriations	-	4,644,024	-	-	-	4,644,024
Grant expense	(725,000)	-	-	-	-	(725,000)
	<u>(725,000)</u>	<u>4,644,024</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,919,024</u>
Total non-operating revenue (expense)						
Changes in net position	(1,057,663)	4,988,722	16,204	106,736	-	4,053,999
<b>NET POSITION, June 30, 2012</b>	39,530,398	4,778,174	619,086	632,171	(11,065)	45,548,764
Transfers of net position	353,955	(365,020)	-	-	11,065	-
<b>NET POSITION, June 30, 2013</b>	<u>\$ 38,826,690</u>	<u>\$ 9,401,876</u>	<u>\$ 635,290</u>	<u>\$ 738,907</u>	<u>\$ -</u>	<u>\$ 49,602,763</u>

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2012**

	<u>MGCC</u>	<u>STATE SMALL BUSINESS CREDIT INITIATIVE</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #1</u>	<u>FEDERAL TITLE IX REVOLVING LOAN FUND #2</u>	<u>SBA REVOLVING LOAN FUND</u>	<u>TOTAL</u>
<b>OPERATING REVENUES:</b>						
Interest income on loans	\$ 1,902,461	\$ 24,519	\$ 118,809	\$ 184,600	\$ 2,023	\$ 2,232,412
Management and other fees	318,135	101,250	6,450	35,775	-	461,610
Interest income on cash reserves	201,546	8,381	-	-	-	209,927
Other revenue	24,833	-	7,666	-	-	32,499
	<u>2,446,975</u>	<u>134,150</u>	<u>132,925</u>	<u>220,375</u>	<u>2,023</u>	<u>2,936,448</u>
<b>OPERATING EXPENSES:</b>						
Employee compensation	1,779,085	-	95,573	79,403	-	1,954,061
Professional fees	245,028	-	12,321	10,193	-	267,542
Occupancy	94,905	-	6,836	5,859	-	107,600
Advertising	11,256	-	1,063	808	-	13,127
Travel	15,239	-	1,077	903	-	17,219
Other expenses	17,713	-	1,188	954	107	19,962
Supplies	11,201	-	853	717	-	12,771
Telephone	14,577	-	1,053	872	104	16,606
Depreciation	23,456	-	1,661	1,427	-	26,544
Credit reports	1,491	-	125	100	-	1,716
Insurance	10,842	-	792	651	-	12,285
Information technology	24,993	-	2,129	1,842	-	28,964
Meetings	9,476	-	580	499	-	10,555
Maintenance and repair	7,303	-	578	482	-	8,363
Printing and postage	11,797	-	870	733	-	13,400
Dues and memberships	6,137	-	439	380	-	6,956
Interest	-	-	-	-	1,269	1,269
	<u>2,284,499</u>	<u>-</u>	<u>127,138</u>	<u>105,823</u>	<u>1,480</u>	<u>2,518,940</u>
Changes in net position from operations before loan loss recovery (provision)	162,476	134,150	5,787	114,552	543	417,508
<b>LOAN LOSS RECOVERY (PROVISION)</b>	<u>(2,942,426)</u>	<u>-</u>	<u>(507,000)</u>	<u>(191,572)</u>	<u>74</u>	<u>(3,640,924)</u>
Changes in net position from operations	<u>(2,779,950)</u>	<u>134,150</u>	<u>(501,213)</u>	<u>(77,020)</u>	<u>617</u>	<u>(3,223,416)</u>
<b>NON-OPERATING REVENUE (EXPENSE):</b>						
State appropriations	-	4,644,024	-	-	-	4,644,024
Grant expense	(1,100,000)	-	-	-	-	(1,100,000)
	<u>(1,100,000)</u>	<u>4,644,024</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,544,024</u>
Total non-operating revenue (expense)	<u>(1,100,000)</u>	<u>4,644,024</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,544,024</u>
Changes in net position	(3,879,950)	4,778,174	(501,213)	(77,020)	617	320,608
<b>NET POSITION, June 30, 2011</b>	<u>43,410,348</u>	<u>-</u>	<u>1,120,299</u>	<u>709,191</u>	<u>(11,682)</u>	<u>45,228,156</u>
<b>NET POSITION, June 30, 2012</b>	<u>\$ 39,530,398</u>	<u>\$ 4,778,174</u>	<u>\$ 619,086</u>	<u>\$ 632,171</u>	<u>\$ (11,065)</u>	<u>\$ 45,548,764</u>

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**JUNE 30, 2013**

<u>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>AGENCY OR PASS-THROUGH NUMBER</u>	<u>FEDERAL EXPENDITURES</u>
<b><u>U.S. Department of Commerce</u></b>			
Direct Funding:			
Economic Adjustment Assistance	11.307	N/A	\$2,768,084
<b><u>U.S. Small Business Administration</u></b>			
Direct Funding:			
Secondary Market Lending Authority	59.056	N/A	<u>41,959</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b><u>\$2,810,043</u></b>

**NOTE 1. BASIS OF PRESENTATION**

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

**NOTE 2. FEDERAL LOANS AND GUARANTEES**

MGCC received \$4,000,000 in grants from the Economic Development Administration (EDA) of the U.S. Department of Commerce under Federal Title IX to create revolving loan funds (RLF). The purpose of the Federal Title IX RLF is to address actual and anticipated defense-related economic dislocations or other adjustment problems throughout the Commonwealth. Under the terms of these agreements, MGCC must match one-third of the amounts appropriated by EDA to fund each Federal Title IX RLF. RLF loans and credit lines totaling approximately \$2,450,000 were outstanding at June 30, 2013.

MGCC also received a \$200,000 loan from the U.S. Small Business Administration. The purpose of this funding was to establish a micro-loan program to assist women, low-income, and minority entrepreneurs, business owners, and other individuals possessing the capability to operate successful business concerns including those in areas suffering from a lack of credit due to economic downturn. MGCC repaid the remaining balance of this loan in the amount of \$41,959 during the year ended June 30, 2013.

*Where Every Client is a Valued Client*

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the general purpose financial statements of Massachusetts Growth Capital Corporation (a component unit of the Commonwealth of Massachusetts) (MGCC), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues and expenses, changes in net position and cash flows for the year then ended, and the related notes to the general purpose financial statements, and have issued our report thereon dated October 10, 2013.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Alexander, Brown, Fenning & Co., P.C.".

Boston, Massachusetts  
October 10, 2013

*Where Every Client is a Valued Client*

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

Independent Auditor's Report

To the Board of Directors of  
Massachusetts Growth Capital Corporation:

**Report on Compliance for Each Major Federal Program**

We have audited Massachusetts Growth Capital Corporation's (a component unit of the Commonwealth of Massachusetts) (MGCC), compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on MGCC's major Federal program for the year ended June 30, 2013. MGCC's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, MGCC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

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

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

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

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



Boston, Massachusetts  
October 10, 2013

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2013**

**I. SUMMARY OF AUDITOR'S RESULTS**

*General Purpose Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to general purpose financial statements noted?       Yes       No

*Federal Awards*

Internal control over major programs:

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

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee?       Yes       No

**MASSACHUSETTS GROWTH CAPITAL CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2013**

(Continued)

**II. FINANCIAL STATEMENT FINDINGS IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

None

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None

## FY13 Small Business Grant Summary

- 910 business clients received services from our grantee small business assistance providers
- 500 (55%) were women; 310 (34%) minorities; 226 (25% ) immigrants;
- 499 (55%) located in LMI communities
- 511 (56%) were low or moderate income entrepreneurs
- 156 (17%) new businesses created
- 283 (31%) businesses stabilized
- 296 (33%) businesses grew as a result of services provided by our grantees
- Nearly 500 jobs created
- Nearly 300 jobs preserved\*
- 259 (28%) of businesses received financing for a total of **\$ 26,526,075**
- Loans to borrowers ranged in size from \$500 to \$1.26 million

\* Does not include data from Blackstone Valley Chamber of Commerce or Coastal Community Capital

FY13 Loans

Commit Date	Date Closed	Company	City	Loan	Term Loan	Guaranty	P.O. Financing	Line of Credit	Number of Employees	Current Employees	Projected Employees	
<b>LOANS CLOSED</b>												
7/19/2012	8/6/2012	The Janlynn Corporation	Chicopee	\$250,000				\$250,000	49	37	49	
7/19/2012	8/20/2012	Northeast Water & Support, Inc	Carver	\$200,000				\$200,000	12	12	17	
7/31/2012	8/22/2012	D & D Mulch and Landscape	Bellingham	\$600,000	\$200,000			\$400,000	43	46	59	
5/8/2012	8/23/12	Littleton Farm and Garden, Inc	Littleton	\$100,000	\$100,000				15	17	32	
8/7/2012	9/18/12	Green City Growers	Somerville	\$30,000				\$30,000	6	6	8	
8/20/2012	9/26/12	Custom Learning Designs, Inc.	Belmont	\$250,000	\$250,000				44	46	50	
9/27/2012	10/5/12	Black I Robotics	Tyngsboro	\$250,000				\$250,000	8	8		
7/31/2012	10/5/12	Interaction Associates, Inc	Boston	\$750,000	\$750,000				20	22	26	
9/27/2012	10/16/2012	Circles of Wisdom	Andover	\$20,000	\$20,000				9	8	9	
7/31/2012	10/24/12	Maddison Associates	Revere	\$600,000				\$600,000	12	34	14	
9/11/2012	10/30/2012	Cape Cod Commercial Linen	Hyannis	\$650,000	\$650,000				150	150	120	
10/15/2012	10/31/2012	Hearth Wood Fire Bread	Plymouth	\$60,000	\$60,000				12	23	24	
10/23/2012	10/31/2012	Proto-Pac Engineering, inc	Wilmington	\$1,000,000	\$500,000			\$500,000	77	54	85	
9/11/2012	11/27/2012	Interior Stone, LLC	Waltham	\$150,000				\$150,000	27	19	30	
9/18/2012	11/29/2012	Aquapoint 3, LLC	New Bedford	\$250,000				\$250,000	5	10	10	
11/8/2011	12/7/12	Montillio's Bakery	Brockton	\$133,000	\$133,000				63	73	80	
11/13/2012	12/11/2012	Atlantic Broom Service, Inc	Taunton	\$250,000	\$250,000				21	22	27	
7/31/2012	12/13/2012	Spectra Medical Devices	Wilmington	\$1,000,000	\$1,000,000				27	27	42	
10/23/2012	12/19/2012	Progression, Inc	Haverhill	\$1,000,000	\$1,000,000				26	18	39	
12/21/2012	12/31/2012	Ficus Consulting Group, LLC	Westborough	\$60,000				\$60,000	7	7	10	
12/21/2012	1/4/2013	Falconi Brothers, Inc	Southborough	\$250,000		\$250,000			19	19	22	
9/27/2012	1/13/2013	Hotwatt, Inc	Danvers	\$250,000				\$250,000	147	182	159	
9/13/2011	1/15/2013	Backstage Salon & Day Spa, Inc.	Rowley	\$500,000	\$500,000				47	47		
12/4/2012	1/23/2013	Image Source International Inc	Mattapoisett	\$500,000			\$500,000		12	23	29	
11/13/2012	1/25/2013	Alpha Weatherproofing Corp	Somerville	\$250,000	\$250,000				27	27	34	
12/21/2012	1/28/2013	LeRonde de Marie Claire Early Learning Ce	Mattapan	\$70,000	\$70,000				8	8	10	
1/14/2013	2/28/2013	New England Shirt	Fall River	\$400,000	\$400,000				64	64	72	
2/14/2013	3/11/2013	StonyBrook Water Company	Manchester	\$150,000	\$150,000				7	7	10	
1/31/2013	3/15/2013	The Natural Landscape, Inc	Northborough	\$250,000		\$250,000			10	10	14	
2/27/2013	3/21/2013	Serrano & Serrano Construction	Lawrence	\$80,000		\$80,000			19	19	19	
2/14/2013	3/21/2013	Westminster Millwork, Corp	Fitchburg	\$85,000		\$60,000	\$25,000		8	8	18	
3/12/2013	3/29/2013	DownRiver Ice Cream	Essex	\$30,000	\$30,000				14	14	25	
2/26/2013	3/29/2013	SMR Services	Woburn	\$500,000	\$500,000				4	13	48	
3/14/2013	4/8/2013	Centaur Construction Services	Boston	\$250,000				\$250,000	12	12	25	
2/29/2013	4/8/2013	Landmark Finish, Inc.	Andover	\$100,000	\$100,000				6	6	7	
4/1/2013	4/15/2013	Hearth Wood Fire Bread Inc	Plymouth	\$45,000	\$45,000							
4/12/2013	4/15/2013	Royale Care	Worcester	\$50,000				\$50,000	12	42	113	
2/26/2013	4/18/2013	Robert Karp Co	Boston	\$1,000,000	\$1,000,000				77	77	82	
12/4/2012	4/24/2013	New England Shirt	Fall River	\$400,000	\$400,000							
3/13/2012	5/9/2013	Security Construction Services, Inc.	Hudson	\$500,000				\$500,000	46	46	51	
5/8/2013	5/14/2013	Be Safer at Home	Woburn	\$100,000	\$100,000				11	11	20	
4/9/2013	5/20/2013	Alternative Creative Energy	Blackstone	\$350,000	\$250,000			\$100,000	6	6	8	
5/21/2013	6/7/2013	Old Time Sports, Inc	Salisbury	\$250,000	\$250,000				35	35	37	
2/7/2013	6/19/2013	D3 Synergy Graphics, LLC	Marlborough	\$250,000	\$250,000				22	22	26	
2/26/2013	6/20/2013	Progressive Gourmet, Inc.	Wilmington	\$1,000,000	\$1,000,000				248	248	350	
<b>COMMITTED FY 13, Closed FY 14</b>												
5/16/2013	7/2/2013	Sunpac Foods	Lawrence	\$35,000	\$35,000				13.5	13.5	13.5	
5/21/2013	7/11/2013	Wildfish LLC	Boston	\$200,000	\$200,000				19.5	19.5	32.5	
6/25/2013	7/12/2013	Blue Selenium	Sandwich	\$250,000	\$250,000				16	16	27	
6/25/2013	7/19/2013	Automation Engineering, Inc	Wilmington	\$750,000	\$750,000				30	30	60	
5/21/2013	7/31/2013	Lewis Mills & Co, LLC	Gloucester	\$400,000	\$400,000				7	7	10	
6/21/2013	8/14/2013	Thermo-Craft Engineering	Lynn	\$250,000				\$250,000	34	43	43	
2/26/2013	8/29/2013	Centage Corp	Natick	\$250,000	\$250,000				35	35	42	
<b>COMMITTED FY 13, not yet funded</b>												
12/3/2012		Vibration & Shock Technologies, LLC	Woburn	\$100,000			\$100,000		7	7	10	
3/13/2013		Hastings & Sons Publishing Co	Lynn	\$225,000	\$225,000				47	47	43	
3/27/2013		Lower Cape Cod CDC & Affiliate d/b/a/ Community Development Partnership	Eastham	\$250,000				\$250,000	8	8	8	
4/9/2013		Seminex Corporation	Peabody	\$250,000	\$250,000				8.5	8.5	11.5	
5/21/2013		Auriga Measurement Systems	Chelmsford	\$500,000				\$500,000	19	19	21	
6/25/2013		Automation Engineering Inc	Wilmington	\$750,000	\$750,000				30	30	60	
6/21/2013		Blue Selenium Solar LLC	Sandwich	\$250,000	\$250,000				16	16	48	
6/7/2013		SocialSphere, Inc	Cambridge	\$250,000	\$250,000				16	18	18	
<b>LOANS CLOSED TOTAL</b>				<b>45</b>	<b>\$15,213,000</b>	<b>\$10,208,000</b>	<b>\$640,000</b>	<b>\$525,000</b>	<b>\$3,840,000</b>	<b>1,494</b>	<b>1,585</b>	<b>1,910</b>
<b>LOANS COMMITTED FY 13</b>				<b>15</b>	<b>\$4,710,000</b>	<b>\$3,610,000</b>	<b>\$0</b>	<b>\$100,000</b>	<b>\$1,000,000</b>	<b>306.50</b>	<b>317.50</b>	<b>447.50</b>
<b>CLOSED &amp; COMMITTED</b>				<b>60</b>	<b>\$19,923,000</b>	<b>\$13,818,000</b>	<b>\$640,000</b>	<b>\$625,000</b>	<b>\$4,840,000</b>	<b>1800.50</b>	<b>1902.50</b>	<b>2357.50</b>

**FY13 Small Business Grant Awardees**

<b>Organization</b>	<b>Operations Award</b>	<b>Capacity Building Award</b>	<b>Region</b>
Accion	\$ 45,000	\$ -	Statewide
Blackstone Valley	\$ 30,000	\$ -	Central
Center for Women and Enterprise	\$ 45,000	\$ -	Boston/ Central
Coastal Community Capital/ Cape Cod Chamber	\$ 45,000	\$ 3,000	Southeast
Community Development Partnership/ Cape Cod Hook Fishermen	\$ 75,000	\$ 3,000	Southeast
Community Economic Development Center of SE MA	\$ 45,000	\$ 3,000	Southeast
Community Teamwork/ Greater Lawrence CAC	\$ 45,000	\$ 3,000	Northeast
Enterprise Center at Salem State	\$ 45,000	\$ -	Northeast
Franklin County, Hilltowns, Valley CDCs	\$ 70,000	\$ 3,000	Western
Interise	\$ 45,000	\$ 3,000	Statewide
JPNDC	\$ 45,000	\$ -	Boston
PERC	\$ 45,000	\$ 3,000	Western
Quaboag Valley/ Southern Worcester County CDCs	\$ 45,000	\$ 2,000	Central, Western
Twin Cities, Greater Gardner CDCs, RCAP	\$ 74,000	\$ 3,000	Central
<b>Total</b>	<b>\$ 699,000</b>	<b>\$ 26,000</b>	<b>\$ 725,000</b>

# Massachusetts Growth Capital Corporation (MGCC)

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## Business Plan

FISCAL YEAR 2013

Charles T. Grigsby

President

Submitted for approval - MARCH 31<sup>ST</sup> 2012

## Executive Summary

### Mission statement

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

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

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

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

### Strategic Goals, Action Steps and Performance Measures

Goal	Action	Measurement
<b>Increase availability of working capital to promote growth of small businesses</b>	Increase net loans to small businesses by over 20%	Originate \$24,000,000 in small business loans
<b>Strengthen network of micro-lenders statewide</b>	Assist formation of new micro-lenders and provide assistance to existing intermediaries	Originate \$2,000,000 in loans to micro-loan intermediaries
<b>Employ targeted management assistance to increase success rate of small businesses</b>	Increase market awareness of the availability of this resource and encourage other lenders to make greater use of it	Provide specific targeted management assistance to 40 companies

<b>Increase rate of job creation by small businesses</b>	Increase attention on financing efforts for early stage and growth companies where job creation is strongest	Target 1500 new jobs to be created by portfolio companies
<b>Increase the number of banks with which MGCC participates</b>	Coordinate efforts with Mass Bankers Association; increase direct marketing to banks; emphasize customized MGCC financing structures to make "unbankable" loans bankable	Increase number of participating banks by 54%, (from 26 to 40)